City of Lafayette Staff Report

For:	City Council
By:	Staff and Housing Consultants
Date Written:	February 26, 2009
Meeting Date:	March 9, 2009
Subject:	**Inclusionary Housing Ordinance Follow-up**

Purpose

1. Obtain direction on the final two (2) key components before preparing a draft Inclusionary Housing Ordinance
2. Direct staff to draft an ordinance based on direction from the Council and materials prepared and presented by Staff and the Housing Consultants.

Background

At the October 9, 2008 joint meeting, the City Council and Planning Commission provided direction on the following key components:

- ❑ Inclusionary Percentage Requirement
- ❑ Development Size Threshold
- ❑ Terms of Affordability
- ❑ Exemptions
- ❑ Priorities
- ❑ First-Time Homebuyer Requirement
- ❑ Resale Controls

Additional information was requested on two components:

- ❑ Affordability Restrictions
- ❑ In-Lieu Fees

Staff was asked to prepare additional research based on questions raised at the meeting and return to the Council for direction on these components before drafting an ordinance for public review. Staff and the Housing Consultants have prepared this report in response to the Council's direction.

10A

AFFORDABILITY RESTRICTIONS

What level of affordability should the below-market-rate (BMR) units be held to?

At the October 2008 joint meeting, questions were raised about the feasibility of requiring that the affordability levels of future inclusionary units outside the downtown be tracked to the income distribution of the units required in the Regional Housing Needs Allocation (RHNA). To illustrate, the following table shows the RHNA allocation for Lafayette and the corresponding percentages in each income category:

RHNA Allocation

Total Projected Need	Very Low	Low	Mod	Above Mod
361	113	77	80	91
	31%	21%	22%	25%

In this scenario, inclusionary units would be required to be provided according to the proportion shown in the RHNA allocation. Since Lafayette is predominantly built out, the likelihood of a project of greater than 10 units is very small outside of the Redevelopment Area, but for argument's sake, we can use an example of a 30-unit project. Assuming the 10% inclusionary requirement, 3 units would have to be affordable. Because the RHNA numbers include the Above Moderate Income category, which would not be included in the 10% mix, one would apply percentages based on the lower-income RHNA needs alone:

RHNA BMR Allocation

Total Lower-Income Need	Very Low	Low	Mod
270	113	77	80
	42%	29%	30%

With this method, the breakout for the 3 required affordable units would be as follows:

RHNA BMR Allocation Applied to an Example 30-Unit Project

Total Units in Example Project	Affordable Units Required (10%)	Very Low	Low	Mod
30	3	**1.26**	**.87**	**.9**
		42%	29%	30%

The first issue to address will involve how to handle the fractional units required. In this scenario, 1.26 units plus .87 plus 0.9 do not equal 3 units; they equal 3.03 units. Would the developer be required to round the number of units in each category to the nearest whole number so that the project includes 3 units? Are fractional in-lieu fees required in each category? In other words, is an in-lieu fee required on 0.26 units in very low, 0.87 units in low, and 0.9 in moderate?

In addition, this strategy presents difficulties that are similar to the "split target" recommendation from previous iterations of the inclusionary program. A fundamental of inclusionary program design is that the unit mix (or size of units in terms of number of bedrooms) of the affordable units should

reflect the unit mix of the market rate units. If a condo project is 15% studios, 35% one bedroom and 50% two bedroom, the affordable units should be in equal distribution.

Similar to the split targets concept, with the RHNA allocation model there is the additional challenge of assigning which size units get to be affordable to which income level. Nearly all projects compute to fractional units for a base compliance of unit mix even when there is only one affordability level. While guidelines can help staff and developers understand the priorities, assigning more than one income level to each inclusionary unit does make for more difficult administration.

Other points for discussion regarding the RHNA allocation model are as follows:

→ While a laudable goal, using the RHNA allocation as the model for the distribution of inclusionary units is not necessarily an effective way to achieve affordable housing. In reality, the RHNA figures only point to a jurisdiction's need to provide adequate *capacity* for housing at all income levels; it is not a proscription to *build* any units. Actual construction occurs because there is a market for such housing and there are the funds to achieve it – two factors that are generally not within a city's control.

→ With some exceptions, a majority of projects to which this RHNA allocation model would apply would be future single-family developments outside of the Downtown. Although it is possible that some future single-family developments might be sizable (greater than 10 units, thus producing more than 1 affordable unit), most will be at a smaller scale and if any affordable units are required, it would be only a handful. In fact, even in the scenario above with a 30-unit project, it is likely that much of the requirement would be fulfilled with in-lieu fees.

→ As was noted in previous staff reports, the gap between a very low-income for-sale unit and the market rate unit – even in the current economic climate – will be extremely large. Requiring even a few units at the lowest income levels may be onerous on a small single-family developer.

→ In reality, the need for affordable housing is quite large – in fact, probably larger than the RHNA allocation itself. No matter how many units are provided at whatever income level, a deficit will remain. Getting a few units at a more middling income levels is a benefit. And, because there are more federal and State funds available for housing at the very lowest income levels, using a RHNA allocation model for the distribution of inclusionary units may not be particularly efficient.

Recommendation:

Staff does not support using the RHNA allocation model and instead recommends assigning one affordability level per unit type, as listed below. See KMA's analysis in the Summary & Recommendations memo dated July 31, 2007 (pg. 11-12).

a. Multi-Family Rental: *Low income, only*
b. Multi-Family For Sale: *Moderate, only*
c. Single-Family For Sale: *Moderate, only*

IN-LIEU FEES

How should the City establish in-lieu fees?

At the October 2008 joint meeting, Keyser Marston Associates (KMA) provided a table (Exhibit 3) which compared the in lieu equivalents for condominiums, single family detached, and rental apartment projects based on three mechanisms:

- ❑ Per affordable unit owed
- ❑ Per market rate unit (based on 10% requirement – multiply by 1.5 for RDA projects)
- ❑ Per square foot

The table provided full recovery costs for each and a blended version to reflect the multiple targets or "split targets" approach, which is not recommended. It also provided a recommended per square foot range, which reflects partial cost recovery.

The Council questioned this recommendation and asked staff to compare collecting a partial recovery in-lieu fee with a full recovery in-lieu fee. The attached calculations from KMA (Revised Exhibit 3) illustrate the potential amounts collected based on the July 2007 analysis and, for comparison purposes, a scenario using the RHNA allocation model described above. The table below compares staff's prior recommendation (partial recovery costs) with the full recovery costs.

Cost Recovery Options

Unit Type	Prior Recommendation – Partial Recovery		Full Cost Recovery	
	Per Sq. Ft.	Per Market Rate Unit	Per Sq. Ft.	Per Market Rate Unit
Condominium	$15 - $20	$20,900 - $36,400	$17 - $30	$23,670 - $41,250
Single Family Detached	$30 - $40	$44,500 - $92,900	$36 - $42	$59,180 - $105,260
Apartments	$10 - $15	$15,600 - $31,500	$17 - $38	$16,520 - $35,720

Although it is feasible to use the full recovery method, there are advantages to using the partial recovery in-lieu fees. This approach balances the cities need to fulfill cost recovery with the burden it places on the developer. It provides a comparable in-lieu fee to the programs set by other cities. It also may reduce the likelihood of challenges on these figures, because the developer will not be charged full recovery costs, which should be more palatable. In addition, the full recovery method may require periodic adjustments to the fee to track fluctuations in the market. At some times, the gap may be higher than at others; the advantage of a partial recovery fee is that it potentially would require fewer revisions over time.

KMA recommends preparing an updated fee schedule prior to adoption of the ordinance to reflect the reduced market values. The fees can be set by Council Resolution which can be adjusted by the Council regularly to account for changes in the market.

Recommendation:

Staff recommends that the partial recovery fee be used given the advantages that it has over the full recovery fees. The mechanism for developing the fee should be incorporated in the draft ordinance and the actual fee schedule can be set by Resolution.

RECOMMENDATIONS

Affordability Restrictions - Staff does not support using the RHNA allocation model and recommends the following for IH projects outside the RDA

d. Multi-Family Rental: *Low income, only*
e. Multi-Family For Sale: *Moderate, only*
f. Single-Family For Sale: *Moderate, only*

In Lieu Fees - Staff recommends maintaining the existing proposed methodology of the stepped-down fee rather than the full-cost recovery fee. The base ordinance would incorporate the nature of the fee and the provision that the fees will be set by Council Resolution. In this way, and given the currently state of the economy, the City can adjust the fees as needed.

Provide direction on the two key components and direct staff to prepare a draft inclusionary ordinance.

ATTACHMENTS

1. KMA Revised Exhibit 3, Full Recovery In-Lieu Fees: Equivalent to On-site Obligation
2. Focus Questions, Updated from October 9, 2008 Joint CC/PC Meeting
3. Joint CC/PC Meeting minutes, October 9, 2008
4. KMA Summary & Recommendations Memo, dated July 31, 2007
5. KMA Economic Analysis Memo, dated July 31, 2007

Revised Exhibit 3
Full Cost Recovery In-Lieu Fees: Equivalent to On-site Obligation
Inclusionary Housing Analysis
City of Lafayette, CA

	Onsite Requirement	Unit Type	Full Recovery In-Lieu Fee Equivalent: Per Aff. Unit Owed	Per Market Rate Unit	Per Square Foot
WITH AFFORDABLE UNITS ACCORDING TO JULY 2007 ALLOCATION					
Condominium[1]	10% of units; 50% Low/ 50% Moderate				
		Low	$415,200	$41,250	$30
		Moderate	$236,700	$23,670	$17
		50%/50% Blended	*$325,950*	*$32,595*	*$23*
SFD [2]	10% of units; 100% Moderate				
		Midsize 4 BR	$1,052,600	$105,260	$42
		Small 3 BR	$591,800	$59,180	$36
Apartment [3]	10% of units; 33% Very Low, 33% Low, 33% Moderate				
		Very Low	$357,200	$35,720	$38
		Low	$325,800	$32,580	$34
		Moderate	$165,200	$16,520	$17
		33%/33%/33% Blended	*$282,733*	*$28,273*	*$30*
WITH AFFORDABLE UNITS ACCORDING TO RHNA ALLOCATION					
Condominium[1]	10% of units; 42% Very Low, 29% Low, 30% Moderate				
		Very Low	$476,300	$47,630	$34
		Low	$415,200	$41,250	$30
		Moderate	$236,700	$23,670	$17
		42%/29%/30% Blended	*$387,883*	*$38,711*	*$28*
SFD [2]	10% of units; 42% Very Low, 29% Low, 30% Moderate				
	Affordable sales prices and affordability gaps not calculated for very low and low units; could be calculated if desired and would be significantly larger than the SFD figures above.				
Apartment [3]	10% of units; 42% Very Low, 29% Low, 30% Moderate				
		Very Low	$357,200	$35,720	$38
		Low	$325,800	$32,580	$34
		Moderate	$165,200	$16,520	$17
		42%/29%/30% Blended	*$291,356*	*$29,136*	*$31*

[1] See Condo Table 7 of July 31, 2007 KMA memo titled "Economic Analysis: Inclusionary Housing Program in Lafayette."

[2] See SFD Tables 5 & 6 of July 31, 2007 KMA memo titled "Economic Analysis: Inclusionary Housing Program in Lafayette."

[3] See Apartment Table 7 of July 31, 2007 KMA memo titled "Economic Analysis: Inclusionary Housing Program in Lafayette"; see text on apartment development feasibility at this time and recommended moritorium on inclusionary obligations.

NOTE: the above figures are all based on a 10% program; for the Redevelopment Area where the requirement is 15% per market rate unit and per square foot, figures should be multiplied by 1.5.

NOTE: The above figures are based on spring 2007 market conditions; KMA recommends an update before final figures are selected.

FOCUS QUESTIONS

Updated based on direction obtained at the October 9, 2008 Joint CC/PC Meeting

Direction to staff for preparation of draft ordinance. Direction is NOT a final decision, rather a starting point for drafting the ordinance and forthcoming detailed deliberation. Staff recommendations are *italicized*.

These numbers correspond to the numbering on the Key Components Table.

4. Inclusionary Percentage Requirement

What percentage of the units in a project should be made affordable? (Staff Report, May 12, 2008: pg. 9)

Within the RDA	Outside the RDA
☒ 15% (RDA law)	☒ *10%*

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2. Development Size Threshold

What size project should trigger the requirement for affordable housing? (Staff Report, May 12, 2008: pg. 9)

Council's comments:

+ Incorporate rounding policy for partial units.
+ IH ordinance should address segmentation - incremental building of units that could avoid IH requirements

Within the RDA	Outside the RDA
☒ *≥ 7 units (required to produce on or offsite)* *3-6 units (in-lieu fee allowed for partial unit)*	☒ *≥ 10 units (required to produce on/offsite or customized fee analysis)* *3-9 units (in-lieu fee allowed for partial unit)*

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5. Affordability Restrictions

What level of affordability should the BMR units be held to? (KMA memo, July 31, 2007: pg. 11-12)

Council's comments:

+ Further research requested by the Council
+ Provide comparison applying RHNA # distribution to BMR unit count.

Within the RDA

All Housing:

☒ 15% affordable to very low-, low- or moderate-income households, of which 40% (or 6% of the total units) must be affordable to VLI households (RDA law)

Outside the RDA

Multi-Family Rental:

☐ 1st very low, 2nd low, 3rd unit moderate continue cycling in this manner.

☐ *Low income, only.*

Multi-Family For Sale:

☐ Cycle 1st unit moderate, 2nd unit low continue cycling in this manner.

☐ *Moderate, only.*

Single-Family For Sale:

☐ *Moderate income, only.*

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8. Terms of Affordability

How long should the BMR pricing last for the unit? (Staff Report, May 12, 2008: pg. 10)

Council's comments:

+ Confirm that the term does not run with the land but instead re-starts with each sale.

Within the RDA	Outside the RDA
☒ Multi-Family Rental: 55 years Multi-Family For Sale: 45 years (RDA law)	☒ *Rental: 55 years* *For Sale: 45 years*

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9. In-Lieu Fees

How should the city establish in-lieu fees? (KMA memo, July 31, 2007: pg. 6-8 & Exhibit 3)

Council's comments:

+ Further research requested by Council
+ Compare per square foot recommendation with full cost recovery of the gap between construction cost and market rate.

☐ Per affordable unit owed (cost to construct):

- **Apartments**: $165,000 to $350,000
- **Condos**: $240,000 to $415,000
- **Single Family Detached**: $590,000 to $1,000,000

☐ Per market rate unit (fee assessed to each market rate unit):

- **Apartments**: $16,500 to 35,000
- **Condos**: $24,000 to $41,000
- **Single Family Detached**: $60,000 to $105,000

☐ *Per square foot area:*

- ***Apartments**: $10 to $15 per square foot.*
- ***Condos**: $15 to $20 per square foot*
- ***Single Family Detached**: $30 to $40 per square foot*

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11. Exemptions

Should the city allow exemptions to the ordinance? (Staff Report, May 12, 2008: pg. 6-7)

☒ Yes. The stakeholders and council agreed that exemptions, concessions and waivers be allowed. *These should be consistent with the Napa decision.*

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13. Priorities

Can the city give priority to those who work in Lafayette?

☒ *No. The City Attorney advised that this is contrary to fair housing laws at the state and federal level.*

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19. First-Time Homebuyer Requirement

Can the city restrict the availability of affordable units to first-time homebuyers?

☒ *Yes. First-time homebuyers have been defined as those who have not owned property within the last 3 years, according to industry standard. The city may want to expand the definition of "first-time homebuyer" to comply with this standard.*

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20. Resale Controls

How will the city control resale of affordable units? (KMA memo, July 31, 2007: pg. 14 & Exhibit 4)

Council's comments:

+ Consider eliminating provision that seller will not take a loss for resale of units outside the RDA

☒ *Seller will receive an amount tied to the increase in median income and compensation for capital improvements. The city may want to add a provision to ensure that the seller will not take a loss on the sale. (consistent with RDA law)*

B. Discussion on an Inclusionary Housing Ordinance and key components, economic update, questions and comments from the stakeholders, and items to include in the draft ordinance

Recommendation: Approve the key components of the inclusionary program for Lafayette; direct staff to prepare an ordinance.

Lindy Coburn gave the staff report, indicating that the last time the Commission discussed the inclusionary program was at its May 12th Joint Meeting, during which time a number of questions were raised and additional information was requested. The second Joint Meeting was scheduled for June 23rd, however it was postponed to allow sufficient time to discuss the matter. This evening's packet is the same as that prepared for the June 23rd meeting.

She indicated that California Redevelopment (RDA) Law establishes requirements for affordable units within the Redevelopment Project Area, including 15% to be set aside as below market rate units, 6% of which must be affordable to very low and 9% as affordable to low income households. The terms for affordability, or how long the below market rate pricing should last, is also governed by RDA law at 55 years for multifamily rentals and 45 years for multifamily for sale. However, the City has discretion on the development size trigger, how to establish the in-lieu fee (amount), and when the City should allow an in-lieu fee to be paid.
The larger discussion is outside the Redevelopment area, as this area is not governed by Redevelopment law. Most cities apply similar standards with RDA laws or with other communities inclusionary programs to simplify the regulations and implementation.

The question is what return of below market rate unit should be required, what size should it be triggered in the Redevelopment area, what should the level of affordability be, which of the MSB amounts be and when should they be allowed. The goal of the meeting is to obtain feedback on the structure and elements of the inclusionary housing ordinance. She said Diana Elrod and Kate Funk from Keyser Marston Associates are present who will lead the Council and Commission through the presentation.

DIANA ELROD referred to a summary of questions discussed which staff would like feedback on, and said she would project questions from the PowerPoint presentation and review them. She also referred to Item #4; Inclusionary Percentage Requirements on the Key Components, stating anything in *Italics* represents those being recommended by staff and needing feedback from the Council and Commission on. If not identified in *Italics* it is typically either in RDA areas and law cannot be changed, or it is something outside the RDA and an earlier recommendation.

For the inclusionary percentage requirement and what percentage of the units should be made affordable within the RDA, it is required to be 15%. Outside the RDA and everywhere else, staff is recommending 10%.

Vice Mayor Tatzin questioned the numbers of units inside the RDA, and Ms. Elrod said in the RDA, 85% of 100 units would be market rate and 15% would be affordable. Outside the RDA, 90% of 100 units would be market and 10% affordable.

Councilmember Andersson questioned the rationale for having different percentages outside the RDA, and Ms. Elrod said she believes many jurisdictions like Lafayette would begin with a lower percentage to gauge how well the program works. She said there has been concerns of other jurisdictions who felt 15% was too much and required too much of the developer giving up their profits. From her experience, 10% has been more accepted by the development community.

Public Comments:

MARY GELDIN questioned if the Council negotiate with the developer between 10 and 15% of the requirement outside of the RDA.

Mayor Anderson said the proposal is 3-9 units at 10% and there would be an ability to negotiate.

Ms. Elrod said the recommendation by staff is that anything more than 7 units be required to be on or off site and for developments of between 3-6 units, the in-lieu fee would be allowed for partial units thereby created. At 15% in a 7 unit development, this is one unit, so anything below that would be a fractional unit.

Vice Mayor Tatzin said in the past, certain property owners use the approach of developing a portion of parcels, then have it not a part, they come back later and try to subdivide that part of a continuum. So, to start with the parcel, you may get 3 units and then by the time you are done, you have 20. He would like to do a cumulative count. He said this is more likely to occur outside the RDA. The other question he had was that he thought that if within the RDA, fractional units would round up, which is not reflected in the proposal, and is not consistent with the City's current policy.

Councilmember Federighi voiced concern with rounding up from the requirement of 3.01 to 4; that if they are 3.5 they should be rounded up to 4. Ms. Elrod said they can also address this and come back with a proposal as to whether or not staff would recommend rounding up or down for fractional units. She noted there is a certain amount of flexibility where the Council can negotiate this with the developer.

Ms. Elrod referred to the right side of the presentation, or the area outside the RDA, anything greater than 10 units are required to produce on or off site, or a customized analysis would be developed. Keyser Martson made a recommendation on how to take each large development outside of the RDA and customize what the City is going to require for that individual project. For between 3-9 units, the in-lieu fee would be allowed for partial units. She said they discussed at the last meeting where they did talk about in-lieu fees and the issue of tying units based on square footage size, and if there is a large development, you might be able to accept greater fees for that by looking at the product or customization.

Vice Mayor Tatzin questioned what percentage of the City's applications would satisfy the 3-9 unit range versus the 10-40 unit range, and Ms. Coburn said she believed the vast majority were within the 3-9 unit range.

Public Comments:

GUY ATWOOD questioned how many potential units are there outside the RDA area that would be available.

Ms. Coburn said based on research from the General Plan, there are approximately 550 units available within the RDA. The Council discussed areas inside and outside the RDA, and Vice Mayor Tatzin noted the map refers to different areas than the table does. Ms. Coburn referred to Table 6 of the General Plan build-out outside of the RDA shows the ability to build an additional 1,026 units, at which 500 units would be used as affordable units. Ms. Srivatsa noted that 500 of the 1,026 units would be spread out to outside of the RDA, therefore, the answer to Mr. Atwood's question is ±500 units.

Mr. Atwood said what he is trying to get at is why even review something outside the RDA and felt time was being wasted.

KATE FUNK, Keyser Marston Associates, said it was their recommendation that over 10 units be subject to negotiations, to have something in the City's ordinance that allows the City to go after an affordable housing component on site, in-lieu fees, or otherwise, and have a fee for the small units and be done with it and not imagine every possible scenario in how the program would work.

Mayor Anderson said the map not tied to the table identifies several locations where there is the potential for multi-family units outside the RDA.

Ms. Elrod referred to item #5 Affordability Restrictions; what level of affordability should below market rate units be held to outside the RDA. She said within the RDA, according to RDA law, 15% of all housing units must be affordable. In terms of outside the RDA, staff is recommending different scenarios than were originally proposed. In terms of multi-family rental projects, there was an original proposal that cycled through restrictions with the first unit required to be affordable would be very low, the second would be affordable to low income and the third would be market. Based on the recommendations from staff and Keyser Marston's analysis, it would be very difficult to manage a program like this, and it was recommended that instead, that the City go with an income category for each housing type which she discussed. Outside the RDA, for multi-family rentals, low income households tend to get a short end of the stick when it comes to affordable housing subsidy, so greater points are awarded when providing housing for very low income households and not as much subsidy for low income households. Secondly, she said moderate income was not included. In this area, moderate level income households are typically able to afford market rate or close to market rate rental houses. Therefore, the low income category was chosen because it was the in-between category.

Councilmember Federighi thought the latter recommendation was not to impose any kind of inclusionary requirement on rentals because they could have a moratorium on them. Ms. Elrod said they were recommending having a program that would include rentals, but then enact a moratorium right now because there are really no rental housing units at this time. The idea was to establish the rental program and then suspend it until conditions change.

Councilmember Federighi questioned if the City would then have a very low income project that would be developed similarly to what is being done for seniors. Ms. Elrod said no, an affordable housing developer may include a mix of low and very low, or moderate in some cases, but in terms of the preponderance of units in a development that are subsidized, there are going to be more of the very low income. She believes this is a small category and it is easier to monitor than to have a mix of units, incomes are a little higher are they are not as onerous, but it is a recommendation.

Mr. Wolff clarified that the recommendation for a low income rental is for 10% of units that are required to be affordable, not very low or moderate, outside the RDA only.

Vice Mayor Tatzin said he understands what the law is for RDA, but asked if the City could be stricter than what the law requires. For example, the City's current regional housing allocation numbers probably have a higher percentage of very low units we have to provide than RDA law. Mayor Anderson questioned how this would be structured, and Ms. Elrod said the City could essentially make its own inclusionary zoning within the RDA with the percentage changing.

Vice Mayor Tatzin said if the City did this, recognizing that outside the RDA it would take 10% as affordable in some way, could we take a fee on a mixed number of allocations. It would more look

at cost versus square footage, and Ms. Elrod said this would be very difficult to do; cost versus square footage is based on the gap between what a moderate income household can afford and what the market rate is. She said if this was something the Council recommends, they would need to research on how this can be done, but her feeling is that it would complicate things much more.

Mr. Wolff said staff could bring this back to the Council, but at the end, they are going to look at what the actual numbers are for the three categories and the likelihood is that they will most not go all the way up to what those levels require. The Council asked Ms. Elrod to further explore this issue.

Ms. Elrod referred to the Multi-Family for Sale Proposal outside the RDA and said one of the original proposals was to cycle through moderate income and low income for condominiums. The recommendation staff is making is for moderate only. The most important reason is that the affordability gap between the low income and market rate in the condo department is significant. It does not really make sense from a financial point of view to require a low income unit in a condo development. Research shows that a person who is buying a multi-family unit for sale is basically paying for the cost to build it. She said the market rate was at about $770,000; the moderate income household can typically afford around $340,000 or about half.

Ms. Elrod referred to the last category; Single Family for Sale outside the RDA and said this would be at moderate income only and any development outside the immediate downtown and in single family areas would be more likely to receiving in-lieu fees from the developer for between 3-9 or some negotiated agreement for larger developments.

BYRNE MATHISEN referred to an article in the San Francisco Chronicle regarding the issue on the cost of homeowner fees in condo units are rising significantly and it ends up that those costs start to exceed their payment on the mortgage. She said costs are being passed onto residents, which is a real problem and becoming more apparent.

GUY ATWOOD encouraged the Council to simplify the program as much as possible and encouraged to try and keep most of the affordable units within the RDA.

Ms. Elrod referred to Item #8 Terms of Affordability, stating this question is how long should the below market rate price last for the for sale and rental units. She said within the RDA, the law requires 55 years for single family rental and 45 years for multi-family for sale. Outside the RDA, staff recommends the same terms in order to make it easier to administer.

Mayor Anderson noted there was no longer a quorum of the Planning Commission and excused Commissioner Jeanne Ateljevich and Will Lovitt.

Councilmember Andersson said if a couple qualifies and purchases a unit, has it for 30 years, he confirmed it would get sold to another qualifying family and the contract would extend another 45 years at the point of sale.

Regarding Item #11, should the City allow exemptions, Ms. Elrod said yes; this decision was principally about the legality of a jurisdiction having an inclusionary ordinance requiring developers to provide some percentage of their development to be affordable. As long as there are exemptions, concessions and waivers that are allowed for various purposes and that are consistent.

Regarding Item #13; Can the City give priority for those who work in Lafayette, she said the answer is no; the City can recommend that it would be within the same market; to target only people who are currently working within Lafayette is not consistent with RDA law.

Regarding Item #19, can affordable units be available for first-time homebuyers, Ms. Elrod said the answer is yes. They are defined by many jurisdictions are those who have not owned property within the last three years. The City may want to expand this that first time homebuyers would comply with this standard and staff recommends not restricting occupancy for them, but rather give them priority.

Regarding Item #20; How does the City control the resale of affordable units for condos if there were any single family homes, the seller needs to receive an amount tied to the increase in median income and compensation for capital improvements, and the City would need to determine how this would exactly work in the ordinance. The City may want to add a provision to ensure that the seller will not take a loss on the sale which would result in a loss.

Vice Mayor Tatzin said many people are taking losses and he was willing to consider some level of loss. Ms. Funk discussed this as a matter of formula, and Ms. Elrod further explained that because the price of the unit is tied to a government-established median income level, owners should not be penalized if the government would reduce that amount. She said it might have happened one year and it did not decrease by much, but then it went back up three or four fold. So, this is something that is not tied to the market but a governmental constraint. Mayor Anderson questioned if there was any latitude by the City, and she said there was plenty of latitude outside the RDA.

Regarding Item #9; In-Lieu Fees, Ms. Elrod explained to the Council the different ways of imposing the in-lieu fee and what staff is proposing. In-lieu fees are established based essentially on the affordability gap between what some lower income households can afford and what market rate prices are. There are two or three different ways to assess this; in terms of per affordable unit owed, how much is the affordable unit. For market rate units, a fee assessed each market rate in different ways or per square foot area. She said staff is recommending the per square foot area calculated out and setting a fee at how much dollar figure there is to the affordability gap per square foot. Staff recommended $10-$15 per square foot for apartments; $15-$20 for condos, $30-$40 for single family detached and negotiating some deal on this for a very large development. She said these are less than the actual gap, which varies from year to year, however the amounts are pretty consistent with other jurisdictions on what they levied through their own analysis. Also, some jurisdictions, like San Francisco, requires the developer pay the gap or more, and this provides subsidies for future development.

She said one of the values of the per square foot amount levying the fees is that you capture large apartments or houses of 4,000 square feet, whereas if you treat it by unit, some larger developments will be paying less than smaller developments who will be more or less penalized.

Vice Mayor Tatzin said he was comfortable with the square footage basis, but he wondered about starting out with a fee that is less than the cost of the project. He would like to start out with a number where we assume that it is close to capturing the full cost.

Councilmember Federighi referred to Walnut Creek's numbers and she questioned if theirs applied just to apartments or to all levels. Ms. Funk responded that theirs applies to condos. Ms. Elrod noted the reference was contained in Ms. Funk's staff report, Exhibit 3, page 6, item 9 dated July 31, 2007. Mayor Anderson said what is interesting is that for the ranges for condo and single

family, he can see how the recommended range is tied, and Ms. Funk said this also all depends on the income levels assigned and types of housing.

Vice Mayor Tatzin questioned cost recovery inside and outside the RDA, and he felt it was easier to have a simpler philosophy for full recovery and then be able to use adjustment for specific situations. Ms. Elrod felt it would make sense to return with examples of what certain developments would look like.

Ms. Funk said the City can charge to recover its full costs, but one of the arguments developers often make for smaller projects is that they do not have the ability to do a larger project and it is tougher on their costs. In addition, they pay more for land per unit than other cities and with larger projects. Ms. Elrod said this item would be brought back for clearer directions.

Ms. Elrod ended discussion by saying she would bring back the inclusionary percentage requirement of 10% outside the RDA, and the development size threshold, about capturing sites that are instrumentally working to avoid requirements through piecemeal development, also regarding rounding up or down fractional units, and regarding affordability restrictions, she said staff will look at determining how to do income levels to bring about proportionate allocations, which will significantly change how they structure the program. It was suggested to use the percentage of very low, low and moderate income units required by RHNA for projects outside the RDA. For low income, the recommendation is to stay within 70% as opposed to 80%. The last item to return is Item #9; how in-lieu fees would work.

ACTION: It was M/S/C (Tatzin/Federighi) to direct staff to prepare a draft Inclusionary Housing Ordinance. Bring back additional information on #5 Affordability Restrictions and #9 In-Lieu Fees to the Council before scheduling the draft ordinance for public hearings before the Planning Commission and City Council. Vote: 5-0-0 (Ayes: Anderson, Tatzin, Andersson, Anduri, Federighi; Noes: None; Absent: None).

7. ADJOURNMENT

The Council adjourned at 9:35 p.m. to the next scheduled meeting on Tuesday, October 14, 2008.

APPROVED:

_____
Mike Anderson, Mayor

ATTEST:

_____
Joanne Robbins, City Clerk

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WETMORE

LOS ANGELES
CALVIN E. HOLLIS, II
KATHLEEN H. HEAD
JAMES A. RABE
PAUL C. ANDERSON
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

To: Niroop Srivatsa
City of Lafayette

From: Kate Earle Funk

Date: July 31, 2007

Subject: Inclusionary Program - Summary and Recommendations

Introduction

Following is a summary of the key provisions of an inclusionary housing program for Lafayette. The attached chart and narrative summarize the key provisions including those determined by the community process during 2004 and 2005. Staff and Keyser Marston Associates (KMA) are making joint recommendations for the remaining provisions that were still undecided at the end of the earlier process.

An accompanying memorandum which is an Appendix presents an Economic Analysis of proposed inclusionary provisions and an analysis of in lieu equivalents. This memorandum briefly restates the findings where relevant but refers the reader to the Appendix for more in depth explanation.

This document is intended to facilitate discussion and to assist the City with moving the process to final decisions, leading to the adoption of an ordinance that guides the program for future years.

Overview

The vast majority of the provisions of a local inclusionary housing program may be tailored to local policy preference. However, consistency with other affordable housing requirements at the state and regional level are important to keep in mind in the design of a program, especially for a small city like Lafayette. The attached chart and narrative note the principal source or basis for the selected or recommended provisions. The shorthand abbreviations for source or explanation are explained below:

- Decided in previous process in Lafayette, or "Previous Process" in the chart.

- California Redevelopment Law (CRL) consistency. Since the majority of construction subject to an inclusionary program is in central Lafayette and subject to CRL, where possible and desirable, the City program should use similar requirements.

- ABAG and State affordable provisions consistency. The definitions of "affordable" in the ABAG Regional Housing Needs Allocation (RHNA) differ from CRL for some income definitions. The ABAG definitions are at higher income levels than CRL and are therefore less burdensome on project economics than the CRL definitions.

- Staff and KMA are jointly making recommendations for some provisions, keyed to CRL or ABAG, or in some cases, based on what we believe would be appropriate and acceptable in Lafayette.

The recommendations and chart are for all three principal housing types developed in Lafayette – condominium and other attached for sale units, single family detached, and rental apartments.

The material in this memorandum is organized:

A. Key Provisions Summary

B. In-Lieu Compliance Equivalents

C. Notes, Other Strategies and Recommendations

A. KEY PROVISIONS SUMMARY

The following narrative amplifies the information on the chart (Exhibit 1)

Percentage Requirement – Refers to the percent of units required to be affordable. Our understanding is that in the Previous Process, 10% was decided for projects outside the Redevelopment Area, and 15% within the Redevelopment Area per CRL.

Minimum Project Size – In the Previous Process, the decision was made to require on-site development of inclusionary units in all projects of 10 or more units in multi family projects. In the Redevelopment Area the threshold project size is 7 or more units. For single family detached see special recommendation.

It was also decided in the Previous Process to charge an in lieu fee in projects in the 3 unit to 9 unit size range. KMA notes that many communities do charge down to single units.

Affordability Level Requirements – this phrase refers to the affordability level to which that the Percentage Requirement is to be applied. From the Previous Process, we understand the following to have been decided:

Condo – 50% Low/50% Moderate Income

Single Family Detached (SFD) – 100% Moderate Income

Rental Apartments – 33% Very Low/33% Low/33% Moderate.

Where multiple affordability levels, or "spit targets" are indicated, the Previous Process determined that the first affordable unit is to be assigned the highest applicable income level, the second affordable unit the second highest affordability level, etc.

See Section C regarding Strategy for Very Low Income Units and "Split Targets" (requiring a mix of income levels.)

Income Level Pricing Definitions – this phrase refers to the affordability level at which the units must be sold or rented; sales prices or rent levels are determined by formula starting with the affordability relationship to Area Median Income (AMI). This program provision is of interest to developers because it determines the contribution to project income from the affordable units and impact on project feasibility overall.

Very Low Income – 50% Area Median Income (AMI). This definition is fairly universal; it is the same for CRL and ABAG purposes and most local programs.

Low Income – 70% AMI. CRL has no official classification for Low Income; ABAG defines Low Income as 50% to 80% AMI and some local programs do use the 80% level. For Lafayette, staff felt that 70% AMI was the direction set in the Previous Process although no firm decision was made.

Moderate Income – 110% AMI . This definition is consistent with CRL. ABAG defines moderate income as the 80% to 120% range and some local programs do use the top end of the range at 120%. For consistency with CRL, Staff/Consultants recommend the 110% definition for Lafayette.

Qualifying Income Level – This phrase refers to the income range for households to qualify for living in the units. This is an important policy consideration for the City, but does not directly affect developers and project economics.

Very Low Income – up to 50% AMI

Low Income – 50% to 80% AMI

Moderate Income – 80% to 120% AMI

Rounding and Fractional Unit Policies – Rounding policy refers when fractional units get rounded up to a whole unit for the purposes of on-site compliance. Per the Previous Process, that level was identified at 0.5 or more.

Fractional Unit policy refers to whether the city charges the in lieu fee for fractions under the round-up level, or in this case under 0.5 units. Staff/KMA recommendation is to include a fractional fee provision in the program.

Single Family Detached Projects – After much discussion with staff and review of the sentiments expressed in the earlier process, Staff and Consultant jointly recommend that Single Family Detached Projects (SFD) of 10 units or more not be automatically subject to the on-site requirement. Instead, the recommendation is for the ordinance to reserve the right of City Council to request on-site provision of affordable units if the Council so chooses. In addition, if the Council does grant the project the opportunity to make an in-lieu payment instead of on-site units, a customized analysis may be conducted to determine the amount of the in lieu payment. (see note on Customized Analyses)

The recommendation is made in light of the very few SFD projects of 10 or more units likely to be proposed in future years in Lafayette and that fact that virtually all entitlements for projects of this size will be necessitate negotiations with the City on multiple topics.

Exhibit 1
Summary of Key Program Elements
Inclusionary Housing Analysis
City of Lafayette, CA

		Source/Basis
1. Percentage Requirement	10% of Units (15% in Redevelopment Area)	Previous Process
2. Minimum Project Size		
In-Lieu Fee	3 to 9 units (3 to 6 in Redev. Area)	Previous Process
Build Requirement	10 units (7 units in Redevelopment Area)	
3. Affordability Levels	Condo - 50% Low/ 50% Mod. SFD - 100 % Mod. Apt. - 33% VL/ 33% Low/ 33% Mod.	Previous Process
	First unit assigned highest applicable affordability level, second unit assigned second highest affordability level, etc.	Previous Process
4. Income Pricing Definitions	Very Low 50% AMI	CRL
	Low 70% AMI	Staff/KMA
	Mod 110% AMI	CRL
5. Qualifying Income Level	Very Low Income – up to 50% AMI	CRL
	Low Income – 50% to 80% AMI	CRL
	Moderate Income – 80% to 120% AMI	CRL
6. Rounding & Fractional Unit Policies	Round up 0.5 units or more	Previous Process
	Fractions under 0.5 pay in-lieu fee	Staff/KMA
7. Single Family Detached	10 or more units:subject to in-lieu fee, but Council may require on-site affordable units or customized in-lieu analysis	Staff/KMA

B. IN LIEU COMPLIANCE EQUIVALENTS

In Lieu Fees provide an alternative to on-site compliance. In Lafayette, the intention determined thus far is to use in lieu fees for projects under the 10 unit size threshold (or seven units in the Redevelopment Area.) In addition, the ordinance will likely be written to reserve the right for City Council to allow in lieu compliance in all projects. Staff and KMA are also recommending that the City consider using the in lieu fee for fractional units.

The in lieu equivalent in concept is a similar burden or cost to the project to on-site compliance. In communities where land and development is particularly expensive, as is the case with Lafayette, in lieu equivalents are substantial numbers, but they are reflective of the costs of on-site requirements. A separate Appendix entitled Economic Analysis, Inclusionary Housing Program in Lafayette provides the analysis. This attachment summarizes a real estate analysis that starts with the market rate values of new units in Lafayette and their development cost components. Proposed inclusionary program provisions are analyzed to determine the costs to projects for various residential types – condominium (and other for-sale attached units), single family detached homes, and rental apartments.

The Economic Analysis lays out the various steps to the determination of the in lieu equivalents for each residential type. Only the conclusions are provided here in this Key Provisions Summary. Please refer to the Economic Analysis Appendix for more information and explanation.

How the Fee is Charged

There is often much confusion when in lieu fees are bandied about because there are different ways to express or apply in lieu fees. Furthermore, some communities use percentage relationships to assess their inclusionary housing lieu requirements.

The attached chart, Exhibit 2, presents a summary of six alternative ways of expressing an inclusionary in lieu fee. The chart briefly explains the approach, indicates sample jurisdictions that use the approach, and notes some advantages and disadvantages.

The first two approaches on the chart use percentage relationships which are indirectly related to the actual on-site cost. Several Peninsula cities use a percent of unit sales price, an arrangement that has inherent administrative difficulties. Others use a percent of building permit valuation, but to capture anything close to on-site equivalency, the percent has to be very high. Neither of these approaches is recommended.

Alternative three requires a customized analysis for each project. This approach has definite advantages for jurisdictions with very few projects and may be of interest to Lafayette. See Section C later in this memorandum.

The last three alternatives are basically the same real estate equivalency approach expressed three different ways – cost/fee per affordable unit owed, cost/fee per market rate unit, cost/fee per square foot area of the market rate unit.

The KMA recommendation is to use the per square foot area fee because it is simple, easily understood, and enables the fee amount to vary by unit size or square foot area of the unit. Fees based on square foot area result in lower fee burdens on small modest units than on large luxury units, a relationship that is supported by the economic analysis. This approach is particularly attractive to cities where the range of unit sizes tends to be broad.

In Lieu Equivalents

Exhibit 3 summarizes the in lieu equivalents for condominiums, single family detached, and rental apartment projects. Exhibit 3 shows the fee expressed in three ways, per affordable unit owed, per market rate unit based on the 10% requirement, and per square foot area which is recommended. For the 15% requirement in the Redevelopment Area the fees per market rate unit and per square foot should be multiplied by 1.5.

The table is presented for the multiple targets or "split targets" that were determined in the Previous Process which result in blended fee amounts. The component parts are also indicated should the City wish to simplify the program and reduce the number of affordability levels required on-site. See Section C notes on Split Targets and Very Low Income Unit Strategies.

Recommendations

Per request of the City, KMA is offering a suggested range of fee levels for each of the residential types. The recommended range is lower than the levels supported by the analysis, but may still be viewed as substantial. The recommended ranges for the 10% inclusionary program are as follows:

Condominium - $15 to $20 per square foot

Single Family Detached - $30 to $40 per square foot.

Apartments - $10 to $15 per square foot

For the 15% program in the Redevelopment Area, the above values could be multiplied by 1.5

The practice of other cities in setting in lieu fees is even more diverse than the programs themselves. It is helpful to keep in mind the intended use of the fees – small projects only, and fractional units in on-site application. See Exhibit 5 on inclusionary programs in other jurisdictions.

EXHIBIT 2
IN-LIEU PAYMENT ALTERNATIVES
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE

Approach and Brief Description	Sample Jurisdictions	Advantages	Disadvantages	Comments
I. Percent of Sales Price of Market Rate Unit	Palo Alto, Menlo Park, Mountain View	Higher value units yield higher fees. Larger size units yield higher fees. Easily understood	May not capture full gap for highest end units. Administration – must place lien on escrow	
II. Percent of Building Valuation	Half Moon Bay, San Carlos, Napa	Larger size units yield higher fees. Easily understood Easy to administer; collect at bldg. permit	Permit valuation doesn't capture higher value locations.	Bldg permit valuation less than 20%-30% sales price.
III. Actual Gap for Each Project	Santa Cruz County, Danville, Sunnyvale	Higher value units yield higher fees. Larger size units yield higher fees. Captures full gap	More difficult to explain and predict. More administration; ok if small volume of projects	Varies with each project
IV. Gap Established for Each Affordable Unit Owed (Usually based on average unit)	Monterey County, San Jose Redev., Davis, San Francisco	Easy to administer; collect at Bldg. Permit Easy to apply to fractional unit	No ability to capture higher fee for larger or more valuable units Needs annual/periodic adjustment	Lafayette: $325,950 blended gap for condos.*
V. Gap/Fee Established for Each Market Rate Unit Built (Variation on IV above; gap allocated to market rate units.)	Novato, Irvine, Carlsbad	Easily understood Easy to administer; collect at bldg. permit Easy to apply to fractional units	No ability to capture higher fee for larger or more valuable units. Needs annual/periodic adjustment	Lafayette: $32,595 – see above
VI. Gap/Fee Established per Square Foot on Market Rate Units	Pasadena, Walnut Creek, West Hollywood, San Diego, Santa Rosa	Easily understood Easy to administer; collect at bldg. permit Captures more for large units	Needs annual/periodic adjustment	Lafayette: $23 per sq. ft. – see above

* See Condo Table 8.

Exhibit 3
In-Lieu Equivalents
Inclusionary Housing Analysis
City of Lafayette, CA

	Base Program	Per Aff. Unit Owed	Per Market Rate Unit	PSF
Condo [1]	10% of units			
	50% @ Low	$415,200	$41,250	$30
	50% @ Moderate	$236,700	$23,670	$17
	Blended	$325,950	$32,595	$23
	Recommended Range			$15-$20
SFD [2]	10% of units			
	All at Moderate			
	Mid size 4 BR unit	$1,052,600	$105,260	$42
	Small size 3 BR	$591,800	$59,180	$36
	Recommended Range			$30-$40
APARTMENTS [3]	10% of units			
	33% @ Very Low	$357,200	$35,720	$38
	33% @ Low	$325,800	$32,580	$34
	33% @ Moderate	$165,200	$16,520	$17
	Blended	$282,733	$28,273	$30
	Recommended Range			$10-$15 See note

1) See Condo Table 7
2) See SFD Tables 5 & 6
3) See Apartment Table 7; see text on apartment development feasibility at this time and recommended moritorium on inclusionary obligations.

NOTE: the above figures are all based on a 10% program; for the Redevelopment Area where the requirement is 15% per market rate unit and per quare foot, figures should be multiplied by 1.5.

C. OTHER STRATEGIES AND RECOMMENDATIONS

For the most part, these items are presented for further consideration. Some represent a modification to what has been decided to date in the Previous Process, but are put forth for final deliberation before the program is "finalized" and codified.

1. Strategy for Very Low Income Units

Many communities pursue a strategy of developing their very low income units in projects that can take advantage of federal and state programs, and thus leverage local resources. Such a strategy is particularly attractive when there is a resistance to mixing units for Very Low Income households on-site, especially if the market rate units are in the more luxury price ranges. Some higher income communities also do not require on-site very low income units in rental projects, although it is often an option or alternative to low income. (Walnut Creek is an example).

To pursue such a strategy implies a revenue source for assisting in the development of apartment projects for Very Low Income households. Local sources can be in lieu fee revenues from development that is not required on site (small projects, fractional units, those exempted such as single family detached, if that is the case.) In communities with Redevelopment, 20% set aside funds are a major resource.

This strategy also implies a commitment of the community to find sites, fight neighborhood resistance and facilitate development of a project. Typically, non- profit developers are invited to develop the project. Communities with an acute shortage of sites are now trying to recast their inclusionary programs to offer an attractive land dedication component that delivers sites for development of units for Very Low Income households.

Summary: Lafayette should consider adopting a strategy for Very Low Income units that primarily relies on using fee revenues (and 20% set aside funds) to develop projects that leverage local funds with federal and state program. Requiring on-site units for Very Low Income in rental projects should be deleted. (Note: this is not consistent with the decisions made in the Previous Process.)

2. Split Target Consideration

In the Previous Process in Lafayette, the concept of "split affordability targets" was embraced. Split targets have the obvious appeal of achieving units at a range of affordability levels within a project. Split target are not difficult to implement in large

projects, but in small projects they can become challenging and involve a lot of decision making on the part of staff in applying the program.

A fundamental of inclusionary program design is that the unit mix (or size of units in terms of number of bedrooms) of the affordable units should reflect the unit mix of the market rate units. If a condo project is 15% studios, 35% one bedroom and 50% two bedroom, the affordable units should be in equal distribution. When applying split targets, there is the additional challenge of assigning which size units get to be affordable to which income level. Nearly all projects compute to fractional units for a base compliance of unit mix even when there is only one affordability level. While guidelines can help staff and developers understand the priorities, it should be recognized that split targets do make for more difficult administration.

To illustrate the complexity of split target application, following is a sample market rate projects. For the 10% program, try to apply the current program targets, while keeping the unit size mix of the affordable units similar to the market rate units. Also try for a 15% requirement for condo's and then for a rental project.

7	Studio Units
21	Bedroom Units
29	Two Bedroom Units
2	Three Bedroom Units
59	Total Units

Summary: Lafayette should reconsider split targets and simplify the requirements for one affordability level only. This means condo's at either Low Income or Moderate Income, and rental units at Low Income (Very Low eliminated due to strategy outlined above, Moderate is not recommended because in many economic cycles moderate rent levels may not be very different from market rate.)

3. Customized Analysis for On-Site Compliance or In-Lieu Payment

Some communities in which the number of major projects processed over a multi-year period is very small, require customized analyses for large projects. Customized analyses have the advantage of giving both the community and the developer the opportunity to negotiate for the size and number of units to be built within the adopted framework of the program. A customized analysis will in no way result in a lesser obligation for the developer; the advantage is that alternative affordability levels and alternative size units can presented as choices for compliance to meet the needs of both

the City and developer. For example, if the City wants large units of three or four bedrooms, the large units might be an equivalent trade-off to more units of a smaller size.

A standardized methodology can be proscribed which commences with a computation of the total inclusionary burden based on the proposed market rate units and the requirements of the adopted Lafayette program. Then various equivalent compliance options can be calculated, allowing the City and developer the ability to negotiate the configuration of the on-site compliance or in-lieu payment equivalent.

A number of cities in Southern California use this approach. Usually an outside firm is retained to perform the analysis. The firm is hired by and contracted to the City, with the developer reimbursing the City, much the way EIR's are contracted. The analysis is not expensive to perform (under $12,000) and becomes part of the project entitlement process cost. Needless to say, the process relieves staff of the work entailed to determine on-site compliance requirement, a relief that is particularly helpful if there is a mix of unit sizes and Lafayette maintains the split affordability target requirements agreed to as part of the Previous Process.

Summary; Lafayette should consider an ordinance provision that gives the City the option of requiring a customized analysis in large projects (large could be defined as in excess of, say 25 units, or left undefined) and for single family detached projects.

4. Rental Apartment Projects

Development of new rental apartment projects is not feasible in the current economic cycle. Rents have not significantly increased since the peak in 2000/01 while condominium prices have continued to escalate, making condominium development a far more profitable use of multifamily designated land. To add an inclusionary requirement on rentals only makes a bad situation worse and delays any potential for future development even further. As a result, if the City does want to facilitate the development of rental apartments, a moratorium should be placed on inclusionary requirements for rental units. There are a number of ways to signal the return of feasibility of rental projects and design a "trigger" to application of the inclusionary program to rental projects.

Summary: Lafayette should consider a moratorium on inclusionary requirements for rental projects until the market has demonstrated a return to feasibility.

5. Resale Formula and Other Deed Restriction Items

The formula for setting the price of affordable units at resale is a key provision of an inclusionary program. If the city is interested in maintaining long term affordability of the unit, then the resale price must be restricted to another affordable buyer. The Previous Process concluded that long term affordability was in the best interest of the city and therefore resale to another income qualified buyer would be appropriate. The usual practice, consistent with CRL, is that the unit may be resold at the same affordability level and definition (for example, Moderate Income at 110% AMI). The result is that the unit owner realizes value appreciation only to the extent that median income rises.

KMA cannot emphasize strongly enough the importance of well executed, comprehensive Deed Restrictions, Resale Restriction Agreements and other related documents. Some California jurisdictions have had inclusionary programs in place for over 30 years now and it behooves jurisdictions adopting new programs (or updating old ones) to learn from past experience by incorporating state-of-the-art legal documents into their programs.

A check list of deed restriction and related agreements topics is provided (Exhibit 4) to illustrate the topics to be covered and needs. An attorney experienced in drafting these agreements should be responsible for any final check list of what is included and draft documents.

Summary: Lafayette should devote resources to a thorough and state-of-the-art update of all deed restrictions and other related agreements as part of adopting an inclusionary program.

6. Inclusionary Programs in Other Jurisdictions

Exhibit 5 following provides a two page summary of inclusionary programs in other jurisdictions. The chart contains abbreviated versions of the key provisions of inclusionary programs – percent requirements, income targets, in lieu fees and other features.

The jurisdictions selected for the chart are either neighboring cities or other communities that are viewed to have some similarities to Lafayette.

The chart illustrates a range of requirements on almost all topics.

EXHIBIT 4
CHECKLIST DEED RESTRICTIONS AND RELATED AGREEMENTS

An attorney must draft the agreements (or modify and update existing RDA agreements.)

The key elements of the Resale Restriction Agreement and Option to Purchase typically include the items listed below. Council direction usually provided for the key variables, as asterisked.

A. Recitals and definitions sections – summarizes purpose of Agreement and defines terms.
B. Definitions of Eligible Buyer, Area Median Income, Resale Price
C. Owner-occupancy requirement/prohibition of rental
    1. Definition- occupancy10 months per year, primary residence, homeowner's exemption on property taxes, etc.
    2. Partial rentals allowed?
    3. Provisions for temporary waiver,
    4. Required proof/City monitoring process
    5. Event of default
    6. Penalties for violators-recapture of all actual or presumed rents, etc. (legal costs?)
D. Permitted transfers
    1. To domestic partners?
    2. To adopted children?
    3. To surviving spouse upon death?
    4. Trusts?
E. Prohibited transfers
    1. Definition
    2. Event of default
    3. Penalties
F. Process for transfers
    1. Notice requirement?
    2. Eligibility? Income-eligible, owner-occupants
    3. New resale restrictions recorded?
    4. Term starts over?
G. Maintenance and Insurance Requirements
H. Resale Price*
    1. Appreciation factor or combination of factors*
    2. Added items? Capital improvements, special assessments, brokers fees, sellers closing costs?*
    3. Deduction for deferred maintenance*
    4. Minimum resale price- original purchase price
    5. Maximum resale price- price affordable to applicable income range with a cap equal to a % of the unit's appraised fair market value
I. Process for resale- this will vary depending on who is responsible identifying buyer
    1. Notice from owner of intent to sell
    2. Marketing period for owner or City, if applicable

3. Deadlines for City's response to notice-allowable sales price, current income limits, inspection, inspection report, verification of buyer's eligibility
4. Deadlines for owner- termite report, provision of income documentation of buyer if applicable, documentation of capital improvements, etc.
5. Owner requirement to provide clear title
6. City option to purchase*
7. Deadline for close of escrow
8. Process for making necessary repairs – Seller vs. City

J. City Option/Right to Purchase
K. Process if City does not exercise Right to Purchase
L. Process and Terms if Property is Sold to a Non-income eligible buyer and Price is Not Restricted
M. Inspection Process
   1. City's right to inspect- with 24 hours notice after notice of intent to sell?
   2. By whom? City and its agents?
   3. City's deadline
      a. Deadlines to inspect and to report on deficiencies
      b. Deadlines extended if owner uncooperative or access not available
   4. Repair requirements for owner
      a. Before or after COE?
      b. After COE only at City's discretion?
      c. City's right to inspect after work is completed
N. Who pays for what?
   1. Seller's closing costs and broker's fees, if applicable
   2. City administration fee
   3. Prohibition on other fees and charges to buyers
O. Lender Provisions
   1. City's right to approve financing for purchase or refinancing including new equity loans or subordinate loans- type of loan, loan-to-value, etc.
   2. Subordination requirements for refinancing
   3. Notice of Default or Sale
   4. Lien position of resale restriction
   5. Foreclosures
   6. City's Right to Cure Default
   7. Penalties
P. Term of resale restrictions agreement*
Q. Subordination of affordability covenants and City's note
R. Limits on Refinancings
S. Terms for Repayment of City Note

EXHIBIT 5
OTHER CITIES INCLUSIONARY PROGRAMS
INCLUSIONARY PROGRAM UPDATE
CITY OF LAFAYETTE, CA

	Walnut Creek	San Rafael	San Mateo	Menlo Park	Danville
Year Established/Updated	2004	1992; updated 2004	1992	1988; updated 2005	1994
Minimum Project Size					
For In-lieu Fee	2 units	2 units	No fee option	5 units	13 du/ac
For Build Requirement	10 units	5 units	11 units	5 units	8 units
For Sale					
Percent of Units	10% at 120% AMI or 6% at 80% AMI or 4.5% at 50% AMI	<10 units: 10% 11-20 units: 15% >20 units: 20%	10%	<10 units: 1 unit 10-19 units: 10% >20 units: 15%	<8 du/ac: 10% 8+ du/ac: <21 units - 10%, 21+ units - 15%
Income for Price Calc. (% AMI)	120%; 80%; 50%	1/2 at 90%; 1/2 at 65%	120%	110%	110%
Rental					
Percent of Units	10% at 80% AMI or 6% at 50% AMI	<10 units: 10% 11-20 units: 15% >20 units: 20%	10%	<10 units: 1 unit 10-19 units: 10% >20 units: 15%	<8 du/ac: 10% 8+ du/ac: <21 units - 10%, 21+ units - 15%
Income for Price Calc. (% AMI)	80%; 50%	1/2 at 60%; 1/2 at 50%	80%	HUD low-income limits	110%
In-Lieu Fee	<10 units, Council sets based on aff. gap, varies by # of units: R: $1.60 to $7.20/SF FS: $2.00 to $9.00/SF	Council sets based on construction costs: $193,320 per aff. unit	None	% sales price: 1-3 units: 1% 4-6 units: 2% >6 units: 3%	Project-by-project based on affordability gap
Terms of Affordability	FS: 45 years R: 55 years	55 years	FS: 30 years R: Perpetuity	55 years	n/a
Fractional Units	≥0.7, round up <0.7, round up or pay fee	≥0.5, round up <0.5, round up or pay fee	Round up at 0.5	Round up or pay fee	Round up at 0.75
Alternatives to Onsite Provision [1]					
Fee Option	<10 units (Developer) >10 units (Council)	<5 units (Developer) >5 units (Council)	No	Yes ("City")	<13 du/ac (Council)
Land Dedication	Yes ("City")	Yes (Council)	No	No	No
Offsite	Yes ("City")	Yes (Council)	Yes ("City")	Yes ("City")	Yes (Council)
Design of Inclusionary Units					
Smaller Units	Yes	No	Yes	No	Yes
Lesser Interior Finishes	Yes	No	Yes	Yes	Yes

1. Parentheses indicate which entity has discretion.

Abbreviations:
AMI = Area Median Income
R = Rental
FS = For Sale
SF = Square Foot
du/ac = units per acre

Note: Information is drawn from surveys prepared from 2003 to 2006; some data may not be 100% up-to-date.
Program terms have been abbreviated and are subject to interpretation; consult City ordinances or staff for complete details.

EXHIBIT 5
OTHER CITIES INCLUSIONARY PROGRAMS
INCLUSIONARY PROGRAM UPDATE
CITY OF LAFAYETTE, CA

	Cupertino	Corte Madera	Los Gatos	Pleasant Hill
Year Established/Updated	1993; updated 2004	n/a	1979; updated 2005	2004
Minimum Project Size				
For In-lieu Fee	1 unit	1 unit	5 units	5 units
For Build Requirement	7 units	10 units	10 units	10 units
For Sale				
Percent of Units	15%	10% at 120% and 10% at 80% and 5% at 50%	<20 units: 10% 20 to 100 units: 10 to 20% (increases w/ sliding scale) >100 units: 20%	10% at 70% or 5% at 50% or 25% qualifying seniors or 20% secondary units
Income for Price Calc. (% AMI)	1/2 at 100%; 1/2 at 120%	120%; 80%; 50%	1/2 at 50-80%; 1/2 at 80-100%	70%; 50%
Rental				
Percent of Units	15%	10% at 120% and 10% at 80% and 5% at 50%	<20 units: 10% 20 to 100 units: 10 to 20% (increases w/ sliding scale) >100 units: 20%	10% at 60% or 5% at 50% or 25% qualifying seniors
Income for Price Calc. (% AMI)	60% at 50%; 40% at 80%	120%; 80%; 50%	80% of Santa Clara County Fair Market Rents	60%; 50%
In-Lieu Fee	$1.15/SF; update pending	Project-by-project based on affordability gap	6% of project building permit valuation	Council sets yearly based on affordablility gap
Terms of Affordability	99 years	55 years	n/a	FS: 45 years R: 55 years
Fractional Units	Round up at 0.5	Round up at 0.5	Round up at 0.5	May pay fee, subject to "Approving Body"
Alternatives to Onsite Provision [1]				
Fee Option	<7 units	<10 units	<10 units	Yes ("Approving Body")
Land Dedication	n/a	No	No	no
Offsite	n/a	No	No	Yes ("Approving Body")
Design of Inclusionary Units				
Smaller Units	No	n/a	No	Yes
Lesser Interior Finishes	Yes	n/a	Yes	Yes

1. Parentheses indicate which entity has discretion.

Abbreviations:
AMI = Area Median Income
R = Rental
FS = For Sale
SF = Square Foot
du/ac = units per acre

Note: Information is drawn from surveys prepared from 2003 to 2006; some data may not be 100% up-to-date.
Program terms have been abbreviated and are subject to interpretation; consult City ordinances or staff for complete details.

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

APPENDIX A

ADVISORS IN:
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GREGORY D. SOO-HOO
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JULIE L. ROMEY

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GERALD M. TRIMBLE
PAUL C. MARRA

MEMORANDUM

To: Niroop Srivatsa
City of Lafayette

From: Kate Earle Funk

Date: July 31, 2007

Subject: Economic Analysis: Inclusionary Housing Program in Lafayette

Per your request, Keyser Marston Associates (KMA) has updated our 2005 analysis of inclusionary requirements and residential development prototypes in Lafayette. The earlier analysis and this update have been prepared to inform City discussions of alternative inclusionary housing requirements and their in-lieu fee compliance equivalents.

The economic analysis is essentially a real estate analysis that addresses the cost to residential projects of proposed inclusionary requirements. The analysis for each residential type – condominiums, single family detached, and rental apartments – commences with a market survey to determine current values, sales prices and rent levels. The costs of various inclusionary requirements are a function of median income, affordable definitions, and formula driven sales prices and unit values.

This analysis serves as an Appendix to the Summary and Recommendations.

Overview Conclusions

In general, affordable sales prices have remained about the same since 2005, reflecting only very slight increases in median income over that time. Market rate sales prices, on the other hand, have continued to increase over the two-year period. Construction costs, as well as land values, have also increased over the time period. As a result of increasing costs and sales prices and flat affordable sales prices, the affordability gaps have grown larger. However, most of the market activity for attached units in Lafayette has been for projects with a 15% inclusionary component required by the City, therefore

allowing us to assume that multi-family project economics have taken the inclusionary burden into account, at least with respect to land values.

There continues to be an absence of market rate rental project development in recent years, giving us no solid recent experience on which to base the project pro forma and in lieu burden estimates. Since we understand that you wish to adopt a program that covers rental projects, we have provided best estimates to serve as a basis for designing the program.

Organization

This material is divided into three sections following this introductory material. The sections are by residential "product:"

- Condominiums and other attached multi family for sale type units
- Single Family Detached
- Rental apartment projects

Table sets are organized accordingly with a few appendix tables covering all topics, such as 2007 income levels, which is Appendix Table 1. Also, some market experience data has been put into the Appendix for reference.

Other Background/Context

The City of Lafayette has been engaged in the process of designing an inclusionary housing program for several years now. In addition, the City has a Redevelopment Area under the state program covering much of central Lafayette. The Redevelopment Area has state mandated inclusionary requirements that the City/Agency has been implementing by requiring new residential projects to do on-site units. A number of key decisions regarding a citywide inclusionary program have been made by this time, but a few program elements are still not determined. As a result, we have provided alternative analyses in situations where we understand decisions are yet to be made.

A. CONDOMINIUM UNITS

This section covers condominiums, townhomes and other attached for sale units as may be developed in Lafayette.

Affordable Income Levels

KMA updated the calculation of affordable sales prices and rent levels to reflect the current 2007 income levels, published by the California Department of Housing & Community Development based on estimates from HUD. Area Median Income (AMI) for a three-person household in Contra Costa increased only slightly over the two year period, from $74,000 to $75,400. The 2007 income levels for the range of household sizes are shown in Appendix Table 1.

Affordable Sales Prices

The affordable sales price calculations were run for one, two, and three bedroom condominium units at Very Low, Low and Moderate income levels. Sales prices are calculated for Very Low Income at 50% AMI per practice almost everywhere. Affordable sales price for Low Income households is provided on Condo Table 1 at both 70% and 80%, since it is our understanding that the City is still considering both income levels for purposes of price-setting. Based on discussions, with City staff, we jointly decided to select the 70% level and proceed to complete the rest of the analysis assuming Low Income at 70% AMI.

Moderate Income level is assumed at 110% AMI consistent with California Redevelopment Law. Some cities use 120% AMI which meets the ABAG RHNA standards. For a city as small as Lafayette where most of the activity is in the Redevelopment Area, having too differing standards is best avoided.

The affordable sales prices for condominiums are shown in Condo Table 1. For the purposes of the analysis, we are now using a weighted average of household sizes since the two bedroom unit appears too small to represent average current market activity in Lafayette. (See next section)

Note that for the lower income tiers, 30% of gross household income is assumed allocated to housing whereas for the moderate income tier 35% of income is for housing. These percentages are consistent with CRL, but some cities choose to alter these percentages for local programs.

Prototypical Condominium Project

KMA updated the 2005 market analysis to examine whether the prototypical development has changed in terms of unit mix, unit size, parking, sales prices, etc. There has not been any significant new condominium projects completed in Lafayette

since the 2005 market analysis was conducted; however, two new projects are in the advanced planning stages. KMA interviewed the developers of the proposed projects for input on a range of topics. . Based on their input, we increased the average unit size from 1,275 square feet (SF) to 1,400 SF and changed the unit mix to include 3BR units. For an average mix we are using 14% one BR, 50% 2 BR, and 36% 3 BR units.

KMA also altered the parking assumption from above ground to a mix of above and below. Alternatively, the parking could be partially underground due to sloping site conditions and result in similar costs. Both proposed projects intend to include underground parking; one partially underground and one fully underground. A summary of the prototypical development is shown in Condo Table 2.

Market Sales Prices

Since there have been no new condominium projects developed in Lafayette since 2005, to update the estimate of market rate sales prices KMA also surveyed recent sales data for townhomes and condominiums in Walnut Creek. Older Lafayette sales are also included in the survey. In addition, resale data for condominiums in Lafayette was assembled. Finally, we discussed sales prices with the two developers of proposed projects in Lafayette. New sales data is shown in Condo Table 3 and resale data in Condo Table 4.

Overall, our analysis suggested that our 2005 estimate of $520 per square foot, or $663,000 for a 1,275 SF unit, is lower than current market activity suggests. . For update and program planning purposes, we recommend using a sales price of $550 per square foot, or $770,000 for a 1,400 square foot unit, recognizing that some projects are going to command even higher prices due to superior locations and amenities. There could also be opportunities for more modest projects in less desirable locations that could be priced a little lower than $550 per square foot.

Condo Table 5 presents a comparison and summary of the market rate sales prices and the weighted average affordable sales prices. It is noted that the market sales price for a new condominium in Lafayette requires an income that is approximately 200% of the County median income for the same size household.

Development Costs

Condo Table 2 presents a summary of estimated development costs for a prototypical condo unit in Lafayette. Discussions with developers, as well as KMA's recent experience in other communities, suggests that the 2005 land cost figure is far too low

for today's land costs for condominiums. KMA estimates that the current per-unit land cost is about $115,000 per unit at a density of 33 units to the acre. As noted at the outset, these land costs are per market rate unit, taking into account that a share of all units are required to be affordable and therefore can bear no land cost.

Hard costs of construction have increased rapidly since 2005; KMA consulted two major construction cost indices and adjusted the 2005 estimate to reflect 6% annual increases for two years. Parking costs increased due to increasing construction costs and because underground or partially underground parking is more expensive than at-grade parking. Total direct costs are estimated at $395,000 per unit.

Total fees and other indirect costs have also been increased to reflect changes over the past two years. City fees are estimated to have increased by approximately $5000 per unit and are now estimated at $28,000 per unit. Total indirect costs are estimated at $178,000 per unit. With an additional industry standard 12% profit (percent of development costs), the total development cost figure comes to $770,000, or $550 per square foot, consistent with the market sales price.

Affordability Gaps

Condo Table 6 presents the affordability gaps for the three income levels and blend of unit and household sizes. For this update, KMA altered our methodology slightly from the 2005 analysis. The two projects under consideration in Lafayette both include an affordable component – one because it is in a redevelopment area and one resulting from negotiations with the City. The land values paid by the developers in Lafayette, therefore, already reflect the impact of an affordable component. To calculate affordability gaps, KMA adjusted the total development costs by removing the land component and the profit component (neither of which are possible in the affordable units) to estimate the cost burden of the affordable unit on the rest of the project.

The affordability gaps are calculated as the difference between construction costs (including indirects) and the restricted price of the unit. The gaps range from $237,000 for a moderate income unit to $476,000 for a very low income unit. For the prototype unit, this translates to gaps of between $170 and $340 per square foot, assuming the average unit size of 1,400 square feet.

In Lieu Fee Equivalent

The calculations presented in Condo Table 7 provide in lieu equivalencies based on the preceding analyses and the assumptions in the table – a 10% inclusionary requirement

comprised of half the units affordable to Low Income (at 70% AMI) and half the units affordable to Moderate Income (at 110% AMI). All other assumptions such as unit size and various components of affordable unit pricing (such as percent of income for housing, HOA dues, etc.) affect the calculation as well.

In lieu equivalents are shown as amounts or fees per market rate unit and per square foot. The blended program suggests an in lieu equivalent to $32,595 per market rate unit or $23 per square foot of residential area. The gap per affordable unit owed is $325,950 which is one approach to computing amounts owed for fractional units.

If an in lieu fee provision were to be used as an alternative to on-site units, then the analysis should be adjusted to reflect the land value and profit potential of all units. In other words if large projects were given the option of on-site units or fee payment, fee amounts should be higher to account for the fact that a project with no on-site affordable units would achieve full land value and profit for all market rate units. If the use of fees is for fractional units and very small project purposes, the amounts indicated in the analysis provide a valid fee program.

B. SINGLE FAMILY DETACHED UNITS

As discussed in our 2005 analysis, single family detached (SFD) projects in expensive residential markets present special considerations for inclusionary programs. Unit sizes tend to be considerably larger resulting in significantly higher affordability gaps. The special consideration also stems from the necessity to alter on-site solutions for accommodating affordable units. Some programs allow duet or corner duplex units to reduce the burden on developers and produce compatible physical solutions for neighborhood continuity. Many communities allow SFD projects to meet affordable housing requirements through off-site solutions, such as land dedication or payment of fees. Some communities exempt SFD's completely from inclusionary obligations.

It is our understanding that Lafayette may not require on site affordable units in SFD projects but will wish to make them subject to the program in some manner. The following analysis provides the real estate basis for a fee on SFD projects.

Affordable Prices

In SFD Table 1 the affordable sales prices for SFD units are calculated based on current Area Median Income (AMI) levels as indicated in the Appendix Table. The procedure used to calculate the prices are the same as for condominiums except that there is no

homeowners association dues. The affordable prices for three to five bedroom units range from $414,700 to $480,200 for Moderate Income households at 110% AMI.

The affordable prices per unit are translated to prices per square foot in SFD Table 2 for a range of unit sizes, from 1,650 SF to 4,000 SF. The table mainly serves to illustrate the impact of the wide range in unit sizes and how affordable price varies per square foot varies depending on the assumption. New market rate units in Lafayette are very large. Most inclusionary programs allow affordable SFD units to be significantly smaller than the market rate units if they are to be on-site. For this analysis, we are only illustrating the gaps based on a wide range of unit sizes that are all possible for the number of bedroom indicated.

Market Prices

Since the 2005 analysis, SFD prices have continued to increase. SFD Table 3 presents data on new SFD units in Lafayette. Only one significant new SFD project in Lafayette has been marketed since 2005, Hidden Oaks. The units at Hidden Oaks are very large, averaging 4,200 SF, and have sold for an average price of almost $2.7 million, or $627 per square foot. Other new SFD units sold in Lafayette in the past two years also suggest that new SFD units sell for at least $1.5 million, and often much more.

Based on the recent market data, KMA increased the 2005 market rate sales price estimates from $500 - $520 per square foot to $590 - $610 per square foot, depending on the unit size. Even with the smallest unit sizes, these sales prices still generate unit prices of at least $1 million. (SFD Table 4)

Affordability Gaps

SFD Table 5 presents the affordability gaps for the range of SFD unit sizes at Moderate Income (110% AMI) level. The table illustrates how the size of the unit drives the size of the affordability gaps. The gaps range from $590,000 for a 1,650 SF unit to almost $1.9 million for a 4,000 SF unit. As indicated, affordability gaps are huge on a per square foot level.

Unlike the condominium analysis, these affordability gaps include the land value and the forgone profit components, because the Lafayette has not required an inclusionary or other type affordable housing requirement on single family detached projects.

In Lieu Fees

In SFD Table 6, the affordability gaps are translated to in lieu fees assuming a program requirement of 10% affordable. On a per square foot level, equivalent fee levels range from $34 to $47 per square foot. Of note is the consistency in fee per square foot going across bedroom sizes. What impacts the fee level substantially is the assumption as to unit size for each number of bedrooms.

C. APARTMENT UNITS

Apartment development in Lafayette, like most elsewhere in the Bay Area, continues to be infeasible in this economic cycle. Rents have been stagnant since 2000 and development costs have escalated, making the profit potential of apartment development far inferior to condominiums in the use of multi family land. As in 2005, there is no base of recent experience with which to build an apartment project pro forma financial analysis to serve as a basis for developing an inclusionary program. Since any inclusionary program adopted by the City is likely to be in place for many years and through other economic cycles, the City has requested that we develop information and recommendations for rentals as part of the inclusionary program for the long term.

Affordable Rents

Apartment Table 1 presents the affordable rents based on the 2007 income levels (Appendix Table 1) and the standard 30% of income for housing assumption. Affordable rent levels for one and two-bedroom units at Very Low, Low and Moderate Income levels are driven by formula from the median income information.

KMA attempted to update the utility allowance estimates, but the Contra Costa Housing Authority continues to use the April 2005 estimates, so these too remain unchanged in this analysis.

The weighted average rents reflect a unit mix of 30% one bedroom units and 70% two bedroom units, based on the prototype development.

Market Rents

Apartment Table 2 presents current market rate rents for apartment units in Lafayette. Only the Town Center project is relatively recent; the rest of the inventory is rather old. Rent levels have increased a little since the 2005 analysis, reflecting the slight rebound

region-wide in the rental market, but market rents continue to be far below the rents required to make new construction even marginally feasible.

Based on the pro forma of development costs as indicated in the next section, we estimate that rents to support new project would need to be nearly $2,700 per month. Current market rents require an income at approximately the County median; new market rents would require an income of about 150% of the median. (Apartment Table 3)

Development Costs

KMA's estimate of development costs for new apartment units in Lafayette is summarized in Apartment Table 4. Development costs have been increased in many areas, most particularly construction costs. For this update, we assume a per-unit land value of $52,000 per unit, also a substantial increase over the 2005 estimate but far less than the land value estimate for condominium. The implicit assumption is a site less suitable for condominium use. Density is also higher than condominiums when measured as units per acre (but not Floor Area Ratio due to the far larger size of the condominium units). City permits and fees have been adjusted.

To provide a more conservative estimate of development costs, KMA removed the profit component in the development cost estimate for apartments. Assuming that the developer owns the building for the long-term, the building will generate profit to the developer through the presumed annual escalation of rents. (Many developers would not build under such circumstances even if the calculated rents are achievable.)

Overall, the KMA analysis, for the purposes of the inclusionary program design, concludes that new apartment unit development cost would be at least $359,000 per unit, or $377 per square foot for the average 951 square foot unit. As noted previously, this analysis is not based on recent experience in Lafayette but is drawn from KMA experience with residential development of all types throughout the Bay Area adjusted for Lafayette.

Unit Values Supported

The unit values supported by the various affordable and market rent levels is the next step in the analysis procedure and is summarized in Apartment Table 5. Key variables in the link between value supported and rent levels are annual operating expenses and capitalization rate.

KMA updated the estimate of annual operating expenses to reflect both the increase in property taxes due to increasing construction costs and the increase in operating expenses due to typical appreciation of management and other costs. Overall, we estimate operating expenses at $9,000, which assumes a fairly high level of amenities, as would be typical of new apartment buildings in Lafayette. The capitalization rate assumption is 6.5%, to express the current market valuation of the income stream. Under these assumptions, a new apartment building would have to generate average rents of almost $2,700 per unit per month to support development costs.

Apartment Table 5 also provides the calculation of unit values supported by affordable rent levels. Very Low Income units rent levels barely cover the operating expenses, supporting values of just $1,800 per unit. Low income rent levels support unit values of $33,200. Moderate Income units, which rent for approximately slightly over current market rent levels, support unit values of $193,800.

Affordability Gaps

Apartment Table 6 presents the affordability gaps per unit, which are calculated by subtracting the affordable unit values from the development cost of the unit. The gaps range from $165,000 per unit for Moderate Income units to $357,200 for Very Low ilcome units, or $170 to $380 per square foot.

In Lieu Fee Equivalents

To illustrate in lieu fee equivalents, we have provided the resulting fee equivalent per market rate unit and per square foot. The proposed program is for 10% of the units affordable, one third at Very Low Income, one third at Low Income and One Third at Moderate Income. The blended requirement of the three income levels results in a fee per market rate unit of $28,273 or $30 per square foot.

Needless to say, the added burden of nearly $30,000 per unit on a project that is far out of feasibility range to start with only makes the project more infeasible. We suggest that no burden be placed on rental units until the market has demonstrated that projects are feasible. For the longer term, we will recommend a strategy that will accommodate rental projects in the affordable program.

CONDO TABLE 1
ESTIMATED MAXIMUM AFFORDABLE HOUSING PRICES
CONDOMINIUM UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	1-Bdrm	2-Bdrm	3-Bdrm	Weighted Average[1]
VERY LOW INCOME @ 50% AMI				
Income @ 50% County Median	$33,500	$37,700	$41,900	
Income Allotted to Housing @ 30% of Income	10,050	11,310	12,570	
(Less) Ongoing Expenses[2]	(4,790)	(5,230)	(5,670)	
Income Available for Mortgage	$5,260	$6,080	$6,900	
Maximum Purchase Price[3]	$81,200	$93,900	$106,600	$96,700
LOW INCOME @ 70% AMI				
Income @ 70% County Median	$46,900	$52,780	$58,660	
Income Allotted to Housing @ 30% of Income	14,070	15,834	17,598	
(Less) Ongoing Expenses[1]	(5,380)	(5,890)	(6,400)	
Income Available for Mortgage	$8,690	$9,944	$11,198	
Maximum Purchase Price[2]	$134,200	$153,600	$172,900	$157,800
LOW INCOME @ 80% AMI				
Income @ 80% County Median	$53,600	$60,320	$67,040	
Income Allotted to Housing @ 30% of Income	16,080	18,096	20,112	
(Less) Ongoing Expenses[1]	(5,670)	(6,220)	(6,770)	
Income Available for Mortgage	$10,410	$11,876	$13,342	
Maximum Purchase Price[2]	$160,800	$183,400	$206,100	$188,400
MODERATE INCOME @ 110% AMI				
Income @ 110% County Median	$73,700	$82,940	$92,180	
Income Allotted to Housing @ 35% of Income	25,795	29,029	32,263	
(Less) Ongoing Expenses[1]	(7,080)	(7,810)	(8,530)	
Income Available for Mortgage	$18,715	$21,219	$23,733	
Maximum Purchase Price[2]	$289,000	$327,700	$366,500	$336,300

[1] Weighted average: 14% 1BR, 50% 2BR, 36% 3BR
[2] Includes homeowner association dues and property taxes based on unit value.
[3] Debt @ 6.00 % interest (7.19% mortgage constant) & down payment @ 10.00 % of affordable price.

CONDO TABLE 2
RESIDENTIAL PROTOTYPES - CONDOMINIUM PROJECT
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

Development Program

Number of Units	50		
Number of Stories	3 (Max.)		
Total Bldg Sq. Ft.	70,000 sq ft		
Site Size	1.50 acres	65,340	sq ft
Floor-Area-Ratio	1.07		
Dwelling Units/Acre	33 (Max.)		
Construction Type	Type V Wood		

Parking:

Type	One level above, one level below ground. Or, partially underground due to sloping conditions.	
Spaces	100	
Spaces/Unit	2.00	

Unit Mix & Size

One Bedroom	14%	7	1,000	sq ft
Two-Bedroom	50%	25	1,300	sq ft
Three- Bedroom	36%	18	1,700	sq ft
Avg. Unit Size		50	1,400	sq ft

Development Cost

Land ($88 psf)		$115,000
Construction		
Building	$225/SF	$315,000
Parking		$48,000
Sitework/Amenities		$29,000
Total Direct Costs		$392,000
Indirects/Financing		$153,000
City & Impact Fees		$28,000
Total Development Cost Before Profit		$688,000
Total per Sq. Ft		$491
Plus: Developer Profit	12% Costs	$82,000
Total Development Cost With Profit/Sales Price		$770,000
Total per Sq. Ft		$550
Total Construction Cost (Excluding Land & Profit)		$573,000
Total per Sq. Ft		$409

Prototype adapted from proposed condominium projects in Lafayette, including Town Center (04/05), Woodbury Condominiums (04/07), and Lafayette Park Terrace (5/07), adjusted for maximum density and heights permitted under existing zoning.

CONDO TABLE 3
SUMMARY OF NEW CONDOMINIUM UNITS SALE PRICES, APRIL 2007
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	Unit Mix	SF	Price	$/SF	
TOWNHOMES					
Citrus Walk Townhomes, Walnut Creek					
Two Bedroom	12	849	$549,900	$648	HOA: $127
Three Bedroom	15	1,400	$719,900	$514	*(Source: Hanley Wood, 4/07)*
Four Bedroom	7	1,566	$722,900	$462	
Four Bedroom	13	1,818	$799,900	$440	
	47	1,400		$520	
City Oaks Condos, Walnut Creek					
One Bedroom	18	777	$405,000	$521	HOA: $299
Two Bedroom	19	945	$435,000	$460	*(Source: Hanley Wood, 4/07)*
Two Bedroom	22	1,001	$417,000	$417	
Two Bedroom	15	1,010	$496,000	$491	
	74	934		$468	
NEW CONDOMINIUMS					
Proposed "Woodbury" Condos (Hillside Motel site), Lafayette					
Mostly 2 BRs, some 1BRs and 3BRs	80	1,625	$925,000	$569	*Source: Developer (4/07)*
Proposed Lafayette Park Terrace, Lafayette					
Mostly 3 BRs, some 1BRs and 2BRs	28-31	1,400	$770,000	$550	*Source: Rough estimate by Developer (5/07)*
Proposed Town Center Condos, Lafayette					
Two-Bedroom	35	1,400	$756,000	$540	24 Dus/Ac. *Source: KMA (4/05)*
Club Villas, Walnut Creek					
One Bedroom	28	650	$325,000	$500	HOA: $235
One Bedroom	24	700	$335,000	$479	*(Source: Hanley Wood, 4/07)*
Two Bedroom	22	950	$425,000	$447	
Two Bedroom	13	1,050	$420,000	$400	
	87	799		$466	
Mercer, Walnut Creek					
One Bedroom	18	650	$520,000	$800	HOA: $450
One Bedroom Plus Den	18	800	$620,000	$775	*(Source: Hanley Wood, 4/07)*
Two Bedroom	17	1,000	$771,000	$771	
Two Bedroom Plus Den	16	1,075	$925,000	$860	
Three Bedroom	16	1,300	$1,100,000	$846	
	85	954		$809	
The Montecito, Walnut Creek					
One Bedroom	9	710	$434,000	$611	
One Bedroom	8	710	$462,000	$651	
One Bedroom	7	710	$373,000	$525	HOA: $383
One Bedroom	8	710	$399,000	$562	*(Source: Hanley Wood, 4/07)*
One Bedroom Plus Den	8	886	$522,000	$589	Built as luxury apartment units.
One Bedroom Plus Den	8	886	$521,000	$588	
One Bedroom Plus Den	9	886	$429,000	$484	
Two Bedroom	10	960	$563,000	$586	
Two Bedroom	8	960	$549,000	$572	
Two Bedroom	9	960	$644,000	$671	
Two Bedroom	9	960	$595,000	$620	
Two Bedroom	9	960	$609,000	$634	
Two Bedroom Plus Den	9	1,128	$724,000	$642	
	111	885		$596	

CONDO TABLE 4
SUMMARY OF CONDOMINIUM UNIT RESALE PRICES, APRIL '05 TO APRIL '07
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

Address	Yr Built	SF	# Bed	# Bath	Date Sold	Price Sold	$/SF
114 Haslemere Ct	1988	1,638 SF	3	3	12/13/2006	$799,000	$488
151 Haslemere Ct	1987	2,025 SF	3	3	4/25/2006	$892,000	$440
116 Haslemere Ct	1988	2,025 SF	3	3	11/4/2005	$868,000	$429
156 Haslemere Ct	1988	2,025 SF	3	3	9/9/2005	$874,000	$432
150 Haslemere Ct	1988	2,025 SF	3	3	4/28/2005	$875,000	$432
170 Haslemere Ct	1987	2,025 SF	3	3	4/27/2005	$835,000	$412
2 WCreek Ct	1975	1,488 SF	3	2.5	6/15/2006	$741,000	$498
3 WCreek Ct	1975	1,448 SF	3	2.5	3/14/2006	$661,000	$456
3077 Camino Diablo	1979	1,253 SF	2	1.5	10/9/2006	$562,000	$449
3075 Camino Diablo	1979	1,253 SF	2	1.5	4/15/2005	$555,000	$443
3254 Marlene Dr	1972	1,160 SF	3	1.5	2/15/2007	$468,536	$404
3259 Marlene Dr	1972	1,160 SF	3	1.5	8/24/2006	$530,000	$457
3276 Marlene Dr	1972	1,160 SF	3	1.5	7/20/2006	$505,000	$435
3282 Marlene Dr	1981	1,160 SF	3	1.5	11/23/2005	$514,000	$443
3235 Marlene Dr	1972	1,160 SF	3	1.5	10/21/2005	$535,000	$461
3284 Marlene Dr	1981	1,160 SF	3	1.5	6/30/2005	$569,000	$491
3279 Mt Diablo Ct	1987	1,731 SF	3	2.5	2/21/2007	$640,000	$370
3279 Mt Diablo Ct	1987	1,697 SF	3	2	1/12/2007	$569,000	$335
3279 Mt Diablo Ct	1987	1,489 SF	2	2	10/18/2006	$570,000	$383
3279 Mt Diablo Ct	1986	1,731 SF	3	2.5	8/23/2006	$641,000	$370
3279 Mt Diablo Ct	1987	1,332 SF	2	2.5	6/22/2006	$597,500	$449
3279 Mt Diablo Ct	1987	1,731 SF	3	2.5	4/28/2006	$600,000	$347
3279 Mt Diablo Ct	1986	1,731 SF	3	2.5	8/26/2005	$582,000	$336
3704 Highland Rd	1955	1,350 SF	4	2	6/16/2005	$720,000	$533
3711 West Rd	1977	832 SF	1	1.5	11/1/2006	$425,000	$511
944 Dewing Ave	1976	1,278 SF	2	2.5	6/1/2006	$618,000	$484
915 Dewing Ave	1979	865 SF	2	2.5	10/20/2005	$618,000	$714
919 Dewing Ave	1979	877 SF	2	2.5	10/6/2005	$628,000	$716
922 Dewing Ave	1991	976 SF	2	2	9/6/2005	$655,000	$671
944 Dewing Ave	1976	1,296 SF	2	2.5	8/24/2005	$595,000	$459
918 Dewing Ave	1992	1,245 SF	2	2.5	6/14/2005	$650,000	$522
909 Dewing Ave	1979	1,294 SF	2	2.5	6/3/2005	$630,000	$487
921 Dewing Ave	1979	1,311 SF	2	2.5	5/27/2005	$533,000	$407
917 Hough Ave	1969	1,038 SF	2	1.5	5/11/2005	$515,000	$496
917 Hough Ave	1969	1,038 SF	2	1.5	4/4/2005	$515,000	$496
931 Mountain View Dr	1983	1,646 SF	3	3	10/27/2006	$675,000	$410
931 Mountain View Dr	1983	1,401 SF	2	2.5	8/11/2005	$649,000	$463
AVERAGES	# Units Sold						
	37	1980	1,407 SF	2.6	2.2	$632,677	$463

Prepared by Keyser Marston Associates, Inc.
File name: 15140.005/Lafayette IHP- 5_23_07.xls;CT4 Condo Resales;6/29/2007;hgr

CONDO TABLE 5
MARKET AND AFFORDABLE SALES PRICES, AVERAGE UNIT
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

CONDOMINIUM UNITS	Avg. Size (SF)	Income Target % AMI[1]	Weighted Average Annual HH Income[2]	Weighted Average Sales Price	Avg. Sales Price (/SF)
Market Units	1,400	198%	$149,000 [3]	$770,000	$550 [4]
Affordable Units[5]					
Very Low Income (50% AMI)	1,400	50%	$38,600	$96,700	$69
Low Income (70% AMI)	1,400	70%	$54,100	$157,800	$113
Moderate Income (110% AMI)	1,400	110%	$85,000	$336,300	$240

[1] AMI= Area Median Income.
[2] Weighting based on the unit mix shown in Table A1.
[3] For market rate units, assumes 30% income needed for mortgage payments (typical 20% down, 6% int., 30-yr.)
[4] Based on recent sales/resales.
[5] See Condo Table 1 for household income, expenses and maximum home sales price for affordable units.

CONDO TABLE 6
AFFORDABILITY GAP PER UNIT - AVERAGE CONDOMINIUM UNIT
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

CONDOMINIUM UNITS

Target Income Level	Sales Price Per Unit	Construction Cost/Unit[1]	Affordability Gap Per Unit	Affordability Gap Per SF
Very Low Income (50% AMI)	$96,700	$573,000	($476,300)	**($340)**
Low Income (70% AMI)	$157,800	$573,000	($415,200)	**($300)**
Moderate Income (110% AMI)	$336,300	$573,000	($236,700)	**($170)**

1. Does not include land or developer profit. See Condo Table 2.

CONDO TABLE 7
ILLUSTRATIVE IN-LIEU FEE EQUIVALENTS
CONDOMINIUM UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

CONDOMINIUM UNITS

		Per Unit	*Per SF*
Average Unit Size	1,400 SF		
Market Rate		$770,000	$550
10% Affordability Program [1]			
Low Income (70% AMI)			
Affordable Sales Price		$157,800	$113
Affordability Gap [2]		($415,200)	($297)
In-Lieu Fee Equivalents (Per Market Rate Unit)		($41,520)	($30)
Moderate Income (110% AMI)			
Affordable Sales Price		$336,300	$240
Affordability Gap [2]		($236,700)	($169)
In-Lieu Fee Equivalents (Per Market Rate Unit)		($23,670)	($17)
Blended Low & Mod (Equal Mix)			
Affordable Sales Price		$247,050	$176
Affordability Gap [2]		($325,950)	($233)
In-Lieu Fee Equivalents (Per Market Rate Unit)		($32,595)	($23)

[1] In-lieu fee equivalents equal per unit gap on Condo Table 6 multiplied by 10%.
[2] Affordability gap does not include land or developer profit.

SFD TABLE 1
ESTIMATED AFFORDABLE HOUSING PRICES
SINGLE FAMILY DETACHED UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	3-Bdrm *(4-Person HH)*	4-Bdrm *(5-Person HH)*	5-Bdrm *(6-Person HH)*
MODERATE INCOME (@ 110% AMI) [1]			
Income @ 110% County Median	**$92,180**	**$99,550**	**$106,920**
Income Allotted to Housing @ 35% of Income	**32,263**	**34,843**	**37,422**
(Less) Ongoing Expenses [2]	**(5,410)**	**(5,870)**	**(6,330)**
Income Available for Mortgage	**$26,853**	**$28,973**	**$31,092**
Affordable Sales Prices [3]	**$414,700**	**$447,400**	**$480,200**

[1] AMI = Area Median Income.

[2] Includes insurance and property taxes (estimated at 1.1% of unit value).

[3] Debt @ 6.00 % interest (7.19% mortgage constant) & down payment @ 10.00 % of affordable price.

SFD TABLE 2
ILLUSTRATIVE AFFORDABLE SALES PRICE PER SQUARE FOOT
SINGLE FAMILY DETACHED UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

SINGLE FAMILY DETACHED UNITS	3-BEDROOM *(4-Person HH)*	4-BEDROOM *(5-Person HH)*	5-BEDROOM *(6-Person HH)*
Affordable Sales Price (@ 110% AMI) *(From Table C-2)*	$414,700	$447,400	$480,200
Sales Price Per Square Foot			
Small-Size Units	1,650 SF	1,800 SF	1,950 SF
$/SF	$251/SF	$249/SF	$246/SF
Mid-Size Units	2,200 SF	2,500 SF	2,700 SF
$/SF	$189/SF	$179/SF	$178/SF
Large-Size Units	3,000 SF	3,500 SF	4,000 SF
$/SF	$138/SF	$128/SF	$120/SF

SFD TABLE 3
SUMMARY OF SINGLE FAMILY DETACHED NEW UNIT SALES
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

NEW SINGLE FAMILY PROJECTS

	Date Sold	Lot SF	Bldg. SF	Price	$/SF
Hidden Oaks, Lafayette					
34 Sanford Lane	January 2007	21,500	3,861	$2,400,000	$622
55 Hidden Oaks	October 2006	23,200	4,311	$2,800,000	$650
25 Samantha Dr.	August 2006	27,440	4,427	$2,625,000	$593
21 Samantha Dr.	July 2006	35,200	4,619	$2,650,000	$574
56 Hidden Oaks	June 2006	28,630	4,619	$2,925,000	$633
23 Sanford Lane	June 2006	29,580	4,250	$2,825,000	$665
22 Sanford Lane	April 2006	22,600	3,538	$2,350,000	$664
		26,879	4,232	$2,653,571	$627
Other New Single Family, Lafayette					
25 Ariey Ln	January 2006	14,770	3,900	$1,795,000	$460
101 Jordan Place	April 2005	10,019	3,355	$1,650,000	$492
3626 Brook St.	July 2005	22,950	3,974	$2,375,000	$598
4015 Happy Valley	December 2005	42,427	6,011	$4,100,000	$682
1066 N Thompson R	July 2006	16,553	2,790	$1,485,000	$532
1111 Via Media	April 2006	28,690	3,919	$1,929,000	$492
1111 Rahara Dr.	October 2005	38,533	4,080	$2,700,000	$662
1107 Rahara Dr.	April 2006	32,490	3,352	$2,400,000	$716
		25,804	3,923	$2,304,250	$587
Overall Average		26,305	4,067	$2,467,267	$602

Source: RealQuest, April 2007

SFD TABLE 4
ESTIMATED MARKET SALES PRICE PER UNIT
SINGLE FAMILY DETACHED UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

SINGLE FAMILY DETACHED UNITS	3-BEDROOM *(4-Person HH)*	4-BEDROOM *(5-Person HH)*	5-BEDROOM *(6-Person HH)*
Market Sales Prices Per SF	*@ $610/SF*	*@ $600/SF*	*@ $590/SF*
Small-Size Units	1,650 SF	1,800 SF	1,950 SF
Sales Price Per Unit	$1,006,500	$1,080,000	$1,150,500
Mid-Size Units	2,200 SF	2,500 SF	2,700 SF
Sales Price Per Unit	$1,342,000	$1,500,000	$1,593,000
Large-Size Units	3,000 SF	3,500 SF	4,000 SF
Sales Price Per Unit	$1,830,000	$2,100,000	$2,360,000

Source: Based on 2005 - 2007 single family home sales in Lafayette (SFD Table 3.)

SFD TABLE 5
ILLUSTRATIVE AFFORDABLE GAP
SINGLE FAMILY DETACHED UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

SINGLE FAMILY DETACHED UNITS	3-BEDROOM *(4-Person HH)*	4-BEDROOM *(5-Person HH)*	5-BEDROOM *(6-Person HH)*
Market Sales Prices Per SF	$610	$600	$590
Affordable Sales Price (@ 110% AMI)			
Small-Size Units	1,650 SF	1,800 SF	1,950 SF
Affordable Sales Price Per SF [1]	$251	$249	$246
Affordability Gap Per SF [2]	$359	$351	$344
Affordability Gap Per Unit	$591,800	$632,600	$670,300
Mid-Size Units	2,200 SF	2,500 SF	2,700 SF
Affordable Sales Price Per SF [1]	$189	$179	$178
Affordability Gap Per SF [2]	$422	$421	$412
Affordability Gap Per Unit	$927,300	$1,052,600	$1,112,800
Large-Size Units	3,000 SF	3,500 SF	4,000 SF
Affordable Sales Price Per SF [1]	$138	$128	$120
Affordability Gap Per SF [2]	$472	$472	$470
Affordability Gap Per Unit	$1,415,300	$1,652,600	$1,879,800

[1] See SFD Table 2.
[2] Difference between Market and Affordable Prices.

SFD TABLE 6
ILLUSTRATIVE IN-LIEU FEE EQUIVALENTS
SINGLE FAMILY DETACHED UNITS
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

SINGLE FAMILY DETACHED UNITS	3-BEDROOM *(4-Person HH)*	4-BEDROOM *(5-Person HH)*	5-BEDROOM *(6-Person HH)*
10% Affordability Program [1]			
Small-Size Units	1,650 SF	1,800 SF	1,950 SF
In-Lieu Fee Equivalents	$59,180	$63,260	$67,030
In-Lieu Fee Equivalents Per SF	$36	$35	$34
Mid-Size Units	2,200 SF	2,500 SF	2,700 SF
In-Lieu Fee Equivalents	$92,730	$105,260	$111,280
In-Lieu Fee Equivalents Per SF	$42	$42	$41
Large-Size Units	3,000 SF	3,500 SF	4,000 SF
In-Lieu Fee Equivalents	$141,530	$165,260	$187,980
In-Lieu Fee Equivalents Per SF	$47	$47	$47

[1] Unit gap on SFD Table 5 multiplied by 10%.

APARTMENT TABLE 1
ESTIMATED MAXIMUM AFFORDABLE RENTS
VERY-LOW, LOWER AND MODERATE INCOME HOUSEHOLDS
APARTMENT UNITS - ONE AND TWO BEDROOMS, WEIGHTED AVERAGE
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	1-Bdrm	2-Bdrm	Weighted Average[2]
Very-Low Income			
Income @ 50% County Median	$33,500	$37,700	
% of Income Allotted to Housing	30.00%	30.00%	
Monthly Housing Expenses	$838	$943	
(Less) Utilities Expenses [1]	(102)	(130)	
Monthly Rent	$740	$810	$760
Lower Income			
Income @ 60% County Median	$40,200	$45,240	
% of Income Allotted to Housing	30.00%	30.00%	
Monthly Housing Expenses	$1,005	$1,131	
(Less) Utilities Expenses [1]	(102)	(130)	
Monthly Rent	$900	$1,000	$930
Moderate Income			
Income @ 110% County Median	$73,700	$82,940	
% of Income Allotted to Housing	30.00%	30.00%	
Monthly Housing Expenses	$1,843	$2,074	
(Less) Utilities Expenses [1]	(102)	(130)	
Monthly Rent	$1,740	$1,940	$1,800

[1] Utility expenses based on the Contra Costa Housing Authority estimate for tenant furnished utilities and other services (dated April 2005, provided April 2007). Expenses will vary by project and type of utilities.

[2] Weighting based on 30% one bedroom units and 70% two bedroom units.; see Apartment Table 4.

APARTMENT TABLE 2
CURRENT APARTMENT RENTS, APRIL 2007
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	Yr Built	Stories	Units	Unit Size	Rents	Rent Per SF
City of Lafayette						
Town Center	2001	4	75			
One Bedroom				800 - 1,000	$1,695 - $1,825	$1.83/SF - $2.12/SF
Two Bedroom				1,100 - 1,300	$1,900 - $2,550	$1.73/SF - $1.96/SF
Lafayette Highlands	1973	2	151			
One Bedroom				750	$1,595	$2.13/SF
Two Bedroom				950 - 1,050	$1,775 - $1,895	$1.80/SF - $1.87/SF
Three Bedroom				1,300 - 1,300	$2,375 - $2,400	$1.83/SF - $1.85/SF
Lafayette Oaks	1964	2	32			
One Bedroom				650	$995	$1.53/SF
Two Bedroom				1,050 - 1,050	$1,295 - $1,295	$1.23/SF - $1.23/SF
Three Bedroom				1,150 - 1,150	$1,650 - $1,650	$1.43/SF - $1.43/SF
Park Lafayette	1970	2	67			
One Bedroom				750 - 750	$1,255 - $1,400	$1.67/SF - $1.87/SF
Two Bedroom				825 - 1,025	$1,455 - $1,495	$1.46/SF - $1.76/SF

Source: Rent.com April 2007.

Prepared by Keyser Marston Associates, Inc.
File name: 15140.005/Lafayette IHP- 5_23_07.xls; AT2 Apt Data; 6/29/2007; hgr

APARTMENT TABLE 3
AFFORDABLE RENT LEVELS
APARTMENT UNITS - ONE AND TWO BEDROOMS, WEIGHTED AVERAGE
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

	Income Target % AMI [1]	Weighted Average Household Annual Household Income [2]	Weighted Average Household Rent per Month [3]
Market Rent			
Existing Market Rents	102%	$77,000	$1,800
Rent Required by New Projects in Lafayette	150%	$113,000	$2,695
Affordable Rent			
Very-Low Income	50%	$34,800	$760
Lower Income	60%	$41,700	$930
Moderate Income	110%	$76,500	$1,800

[1] Based on Town Center Apartment, Lafayette Highlands, Lafayette Oaks, and Park Lafayette data, updated 4/07.
[2] Assumes rent + utilities = approximately 30% of annual household income
[3] See Apartment Table 1 for household income, utility allowance by unit size, rent calculations.

APARTMENT TABLE 4
RESIDENTIAL PROTOTYPES - APARTMENT PROJECT
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

Development Program

Number of Units	50			
Number of Stories	3 stories over garage			
Total Bldg. Sq. Ft.	47,570	sq ft		
Site Size	1.50	acres	65,340	sq ft
Floor-Area-Ratio	0.73			
Dwelling Units/Acre	33	(MF "Medium High")		
Construction Type	Wood over Podium Garage			
Parking:				
Type	Above ground			
Spaces	69			
Spaces/Unit	1.37			
Unit Mix & Size				
One Bedroom	70%	35	880	sq ft
Two-Bedroom	30%	15	1,118	sq ft
Average Unit Size:			951	sq ft

Development Cost

Land ($40 psf)		$52,000
Construction		
Building	$180/SF	$171,000
Parking		$27,000
Sitework/Amenities		$29,000
Total Direct Costs		$227,000
Indirects/Financing		$55,000
City & Impact Fees		$25,000
Total Development Cost		$359,000
Total per Sq. Ft		$377
Total Construction Cost (Excluding Land)		$307,000
Total per Sq. Ft		$323

Prototype adapted from existing Town Center Apts.- Phase I (2001) and other projects. adjusted for maximum density and heights permitted under existing zoning. Adjusted for costs to 2007.

APARTMENT TABLE 5
UNIT VALUES SUPPORTED BY RENTS
APARTMENT UNITS - ONE AND TWO BEDROOMS, WEIGHTED AVERAGE
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

APARTMENT-TYPE PROJECT	Rent		Less Op Exp[1]	NOI	Unit Value Supported[2]
	Month	Year			
Market Rents for Feasibility	$2,695	$32,340	($9,000)	$23,340	$359,000
Affordable					
Very-Low Income	$760	$9,120	($9,000)	$120	$1,800
Lower Income	$930	$11,160	($9,000)	$2,160	$33,200
Moderate Income	$1,800	$21,600	($9,000)	$12,600	$193,800

1 General operating expenses based on average operating expenses from similar size apartment projects.
Property taxes are based on market rate unit value - property tax exemption is NOT assumed in this analysis.

2 Net operating income capitalized at 6.5%. Rounded to nearest 100. Operating expenses include common area maintenance and utilities, water and refuse collection, management , capital reserves, and vacancy.

APARTMENT TABLE 6
AFFORDABILITY GAPS PER UNIT
APARTMENT UNITS - ONE AND TWO BEDROOMS, WEIGHTED AVERAGE
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

APARTMENT-TYPE PROJECT	Unit Size (SF)	Value Supported Per Unit	Development Cost/Unit	Affordability Gap Per Unit	Affordability Gap Per SF
Very-Low Income	951	$1,800	($359,000)	($357,200)	**($380)**
Lower Income	951	$33,200	($359,000)	($325,800)	**($340)**
Moderate Income	951	$193,800	($359,000)	($165,200)	**($170)**

APARTMENT TABLE 7
ILLUSTRATIVE IN-LIEU FEE EQUIVALENTS
APARTMENT UNITS - ONE AND TWO BEDROOMS, WEIGHTED AVERAGE
INCLUSIONARY HOUSING PROGRAM ANALYSIS
CITY OF LAFAYETTE, CA

SINGLE FAMILY DETACHED UNITS

		Per Unit	*Per SF*
Average Unit Size	951 SF		
Market Rate		$359,000	$377
10% Affordability Program [1]			
Very Low-Income (50% AMI)			
Affordable Unit Value		$1,800	$2
Affordability Gap		($357,200)	($375)
In-Lieu Fee Equivalents		($35,720)	($38)
Low-Income (60% AMI)			
Affordable Unit Value		$33,200	$35
Affordability Gap		($325,800)	($342)
In-Lieu Fee Equivalents		($32,580)	($34)
Moderate Income (110% AMI)			
Affordable Unit Value		$193,800	$204
Affordability Gap		($165,200)	($174)
In-Lieu Fee Equivalents		($16,520)	($17)
Blended Very Low (3.3%), Low (3.3%) & Mod (3.3%)			
Affordable Unit Value		$76,267	$80
Affordability Gap		($282,733)	($297)
In-Lieu Fee Equivalents		($28,273)	($30)

[1] In-lieu fee equivalents equal per unit gap on Apartment Table 6 multiplied by 10%.